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Bureau of Business and Economic Research

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GEORGE ROMNEY

The Unfinished American Revolution

The consumer-centered state that is the goal of this executive's thinking requires certain safeguards against excess concentration of power in business, labor and government.

Excessive power in any form—beneficent, humanitarian, religious, political, economic, social—is to be avoided and prevented. Any excess and unchecked power corrupts sooner or later.

This is one of the key assumptions in the origin and development of the United States of America as a government of, by and for the people. Our Founding Fathers particularly avoided exercise of absolute power by any government official, and relied on law rather than government by decree, or by unrestricted popular will.

There are internal tendencies toward the very condition that our entire system has sought to prevent—excessive concentration of power. Indeed one of the most critical areas of power-concentration to excess is at the level of the Federal Government itself, although it is organized internally on a system of checks and balances, and has as its purpose the protection of the rights of all against infringement by other power-concentrations.

In addition to concentration of government power, there are creeping excesses in the concentration of both union power, and corporate power, that should be identified and halted before it is too late. They must be halted collectively, not individually; because it has developed from our Federal theory of checks and balances that a power concentration in a specific area of economic interest has tended to breed opposing power concentrations,

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MR. ROMNEY *is President, American Motors Corporation. He has made a number of recent speeches on power concentration, and has been kind enough to put their essence into an article for* Business Topics.

which in turn has resulted in a tendency to increase further the powers of government to cope with economic concentrations. All the major areas of actual and potential concentration of power to excess must be examined and dealt with as parts of a whole; otherwise only a symptom of the problem is temporarily alleviated, while the fundamental sickness remains.

GOVERNMENT POWER

We are still in the early stages of the unfinished American Revolution. We have been too proud of our partially established political freedom. Political freedom for all was not established except as a concept and a goal, when our country was founded. Indeed, the idea that the country should be governed by those who owned the land was the basis of voter qualification in early elections. It took decades to broaden the right of political consent to include males without property. It took until 1920 to establish voting rights for women. Millions of American citizens are still denied their God-given political rights because of race.

From our earliest history, powerful economic interests have undertaken to dominate the country, politically and economically. Most of our great presidents had to battle with banking, industrial and agricultural interests, separately or in coalition, to preserve the opportunity to build political and economic freedom for all.

Dominance of Business and Agricultural Interests

When I first went to Washington in 1929 and worked at the Capitol for a United States Senator, a coalition of business and agriculture was dominating national policy. In the 1930's this domination was shattered, and union organization of economic and political power was established to counteract and balance business political influence —an influence significantly based on money and its use through mercenaries, rather than direct political participation and organization.

Dominance of the Unions

Agriculture has declined in its relative political importance. Union power is now our country's greatest single political influence. Unions have been almost unchecked in their organization, economically and politically. Their use of union personnel and union funds played the largest single role in the election of the new Congress in 1958. This reversal of political influence has caused an increasing number of voices in business to urge the duplication of union political activity, strategy and tactics.

Because of the substitution of union power for business and agricultural power as the most important single political influence in our country, we have a Democratic Party that is increasingly dominated by union leaders, and a Republican Party that is determined to avoid offense to them, although it is still largely dominated by Big Business leaders. As a result there is little likelihood of fundamental differences developing in the basic positions of our two national political parties.

Economic motives have become prime motives for political activity, and have corrupted both political parties to the point where they are largely duplicates of each other, and are devoid of differences based on human political, social or broad general economic prin-

ciples. Both parties have reached the point where their primary effort is to secure immediate victory by meeting the economic demands of as many groups as possible with the least offense to other groups and the general public. Both parties in recent years have voted public funds that secured the support of special interest groups.

These unfortunate political conditions were hastened by the depression and the dynamic political leadership of Franklin Roosevelt in overcoming economic distress and shortsightedness, and local and state political inertia and vacuums. Under the New Deal, the Federal Government vastly expanded its activities and services, its taxation and revenue, and to a great extent made the states and cities politically and economically dependent on the central government. This pattern has continued, and there is no adequate indication of its end. The magnitude of Federal power is obliterating state and local government independence, importance and strength. If present trends continue, local and state government will be a relatively impotent and dependent function in 25 years.

Politically, I can see little difference in principle between the present excessive political influence of unions, and the earlier excessive political influence of business. One excess is as wrong as the other. Both are obstacles to political freedom and economic justice. The creation of union power has been a desirable offset to business power. Economic power is better distributed now between unions and business than it was earlier when exercised largely by business. Current union political activity does not differ in principle from earlier business political activity. Unions can try to justify their programs on that basis, but the question I am raising is whether in a democracy based on political freedom and the rights of the individual, economic organizations should be permitted to participate directly or indirectly in political affairs.

Let me make clear that I am not referring to individual participation in political activity by union leaders or union members. I do not mean individual participation by business leaders or white-collar employees, nor the presentation of economic facts by unions or businesses to political bodies or to private citizens' groups. What I am discussing is direct or indirect political activity on the part of economic organizations, whether they are union, business or other organized forms of economic endeavor.

Political activity by a company is likely to cause an executive to feel that his economic opportunity in the enterprise is affected by his political support of company political thinking. Conversely, the attitude of many American businesses has resulted in political inactivity on the part of its executives. The same thing is true of unions. How could union members or union officers fail to feel that their treatment by the union would be affected by conformity or opposition to union political programs? I believe we must prohibit economic organizations from direct or indirect political activity and expenditures. I think it is morally, politically and socially wrong for a union or a corporation to use its economic power or interests for political purposes.

Individual Inertia

With the difficulty that is being experienced in securing competent and

adequate candidates for local, state and even some Federal offices, it is obvious we must overcome the lack of political participation by individuals, whether they be corporate employees or union members. I believe that corporate officials and union officials should participate personally, as individuals, in political affairs; but at the same time they should take every possible step to assure members and employees that this right is a personal right, not to be abridged in any manner, and to encourage others to use it. The instrument available to each, for the combination of his effort with those of others, is the political party.

To encourage an increase in political participation, we must have two distinct political parties. At the present time we need at least one political party in America devoted to the interest and welfare of all Americans. We need at least one political party that is more dedicated to the principles of human liberty and justice than to political victory at any cost through economic power, subsidy and advantage.

Administrative Giantism

Speaking broadly of all government at all levels, its functions have necessarily increased. Indeed I believe they will continue to increase as they meet the deficiencies in our present national economic policy, and in our educational, recreational and public service programs. This prospective enlargement increases the urgency of re-applying constitutional restraints to the Federal Government. It increases the urgency of reducing its present excessive responsibilities and services, and restricting its taxation and subsidization. We must transfer many of these back to the states and local communities, where they belong. I believe it is necessary to recognize and effectuate a national policy of restricting the Federal Government from engaging in new government services that are extended directly to the individual citizen. Success of such a realignment of political functions would depend upon states and local governments assuming their responsibilities where needed services and facilities are required upon expansion of metropolitan governments and upon more regional cooperation between states.

A reduction of Federal responsibility is imperative to permit the President and members of Congress to devote themselves to those broad matters of national policy on which the nation's future primarily depends. At the present time they are overburdened with activities and decisions that result from the excessive concentration of governmental activity at the Federal level. Current threats to economic growth and freedom, both from within and from without, cannot finally prevail if we will maintain the integrity of our political convictions and our political goals.

UNION POWER

As America began to develop economically, the tendency toward concerted or collective control in economic affairs was resisted by the passage of the anti-trust laws. Until recent years, the anti-trust policy of the United States has been almost unique. It is still looked upon as a strange phenomenon by many foreign observers, although a few countries have recently paid it the tribute of partial imitation. Nevertheless, no country has yet

adopted so thorough a system of laws against combinations and restraints of trade in industry.

The first big anti-trust crusade of Presidents Theodore Roosevelt, Taft and Wilson was followed by the passage of the Clayton Act, prohibiting specific monopoly practices. In addition, this act exempted labor organizations from the anti-trust laws. This was the origin of immunity for labor in the exercise of monopolistic powers and abuses, and today still provides the major point of conflict in the nation's economic policy. That policy regulates industry on the basis of fostering competition and promotes collective bargaining on the basis of approving monopoly. However, not until the government began promoting the expansion of union power, did labor exemption from the competition principle of the anti-trust laws become an economic weapon of serious proportions.

Labor Legislation

The Wagner Act was passed in 1935 to foster union organization. While Congress passed the Taft-Hartley Act for the purpose of correcting some of the inequities of the Wagner Act, the consolidation of union economic and political power was not significantly affected. Nor did the Taft-Hartley Act in any way modify the basic conflict in our national economic policy resulting from anti-trust laws based on competion, and labor laws based on monopoly.

The past 30 years have seen a far greater shift in the distribution of power than any period of similar length in our history. Unions have had a constructive part to play in this shift. They have fought for a type of civil rights in the shops and have succeeded thereby in curbing management tyranny or abuse. Their collective bargaining efforts have resulted in some redistribution of national income, and the relative apportionments have been fairer and more equitable than they were 30 or 40 years ago. Unions have accelerated the drive for widespread social security and have had a moderating influence on the business cycle, reducing the magnitude and frequency of economic downturns.

Excesses and Abuses

While I do not question the desirability of sound collective bargaining and the distribution of economic power in industry between employers and unions, our current predicament and future peril result from excesses and abuses in the field of union power comparable to the excesses and abuses previously experienced in the field of business power.

I am personally convinced that it was necessary to break up the power of capital and to prevent industrial monopolies and abusive competitive practices. Otherwise our economy would have developed along the lines of European capitalism and cartelism. The anti-trust laws and the subsequent shattering of the political influence and power of business permitted economic freedom to take another step forward in America.

A FATAL CONFLICT

Unquestionably the division of power between industry and unions is far superior to the exercise of disproportionate power by either. Nevertheless the conflict in economic policy that fosters competition on the one hand, and monopoly on the other, will not only block needed economic growth and

progress, unless it is arrested, but will destroy our nation's opportunity to provide world leadership in achieving abundance, freedom, justice and peace.

The excessive power of the unions at the bargaining table has already produced industry-wide organization on the part of some major employer groups. During 1958 bargaining, there was even Big Three collaboration in the automobile industry. In some industries, of which coal is the best known example, the collective bargaining process has reached the point where both the union and the employers are organized on a group basis, and the fixing of wages substantially fixes prices.

As long as national law permits unions to develop superior bargaining power by the organization of that power on an industry or national basis, the collective bargaining pressures are going to be in the direction of employers organizing on a similar basis. When that happens, wage rates are fixed without adequate regard to competitive factors. Unions and employers tend to lose an awareness of the impact on markets of rising labor costs and rising prices. This results in public support for control of wages and prices by government. Government control substitutes arbitrary bureaucratic decisions for the discipline, guidance and stimulation supplied by the market.

Our present economic policy conflict threatens the future of competition through the excess power of either unions or employers or both, or through the substitution of government control and direction.

The ability of unions to secure a constantly increasing percentage of total national income has caused such an eminent economist as Sumner Slichter of Harvard to describe our economy as "laboristic." If present tendencies continue, and unions and union members become the principal beneficiaries of increased productivity in American industry, we will have substituted an economy of "unionism" for our present economy of "consumerism."

There is no adequate solution other than the elimination of the conflict in our national economic policy. This country cannot progress economically half competitive and half monopolistic. Such economic conflict is as destructive of economic progress as a nation divided over slavery and freedom was to social progress.

SOME PROPOSALS

Am I advocating the application of the anti-trust laws to unions? I definitely am not. Within the limitation of my ability and understanding, I have developed some specific proposals:

1. The combining of national unions for the establishment of common bargaining demands or use of economic power should be prohibited.

2. In our basic industries, affiliated unions of a national union representing employees of a single large company regardless of size should be permitted to combine in their collective bargaining demands and joint use of bargaining power.

3. Affiliated unions should be free to combine in bargaining with employers having less than 10,000 employees, but only within prescribed geographical limits. However, those representing more than about 10,000 employees of a single employer should be prohibited from combining to establish collective bargaining demands or exercising

joint economic power against more than one company.

4. Nothing in this law should prohibit union cooperation aside from the above limitations.

Whatever remedy the Congress may ultimately fashion to solve the problem of excessive concentration of union power, I believe it must conform to the following principles:

1. The full benefits of genuine collective bargaining must be retained.

2. We must avoid creating some new form of bargaining inequality.

3. The legislation must be tailored to fit the divergent forms of trade unionism. Craft unions will, perhaps, require different treatment than industrial unions.

4. Employees working for business units having a relatively small number of employees or for concerns operating only on a local or regional basis must not be squeezed into a mold designed for unions representing employees of big business.

5. Responsibility for collective bargaining with a company in a basic industry having more than 10,000 employees should be in the hands of a union representing those employees solely.

The ultimate objective is to prevent combinations of employers or combinations of unions from destroying the competitive system. To prevent this it is necessary to prohibit joint bargaining on the part of large employers in our basic industries as well as joint bargaining on the part of unions representing the employees of these large concerns.

America will ultimately lose its role of world leadership unless this conflict in economic policy is eliminated. If it is resolved in favor of government control there is no future for economic freedom or adequate economic progress. Loss of our present degree of economic freedom in America would jeopardize the partial political freedom that exists in the shrinking free areas of the world.

On the other hand, application to unions of the same sound principles that apply to all other economic institutions would develop collective bargaining on the basis of economic freedom and fullest individual self-expression and economic well-being for union members and others. With citizens, consumers and union members exercising ultimate control over government, industry and unions, we can go forward in our realization of America's hopes and dreams.

CORPORATE POWER

Our American economy, which derives its fundamental concepts from our religious and political convictions, has already provided an unparalleled degree of opportunity for individual contribution and self-realization through four fundamental principles:

- Competition
- Voluntary cooperation
- Reward related to contribution
- Distribution of the results of increased productivity or efficiency.

These principles have not only provided freedom in enterprise but have placed ultimate economic power in the hands of consumers. As a result of competition, the anti-trust laws, the expansion of voluntary cooperation and the division of the fruits of progress between

consumers, workers and owners (for the accomplishing of which genuine collective bargaining is a vital means) we have developed an economy of "consumerism," not "capitalism." Our economic system, like our political system, is of the people, by the people, and for the people. Now, unfortunately, America is again confronted with an excess concentration of corporate power. Paradoxically, this new concentration has resulted largely from the effectiveness of the competitive principle which I should like to discuss at length.

Competition

This principle performs certain vital functions. First, it offers the consumer an area of choice. The adequacy of this choice is dependent upon the number of enterprises producing a particular product. This number should be sufficient to stimulate maximum competitive effort in product development, cost reduction and marketing. In the consumer goods field it should offer customers a variety of choice.

Even in the case of an industry with uniformity of product such as the aluminum industry, the government apparently concluded that at least five companies are required to provide adequate competition. During and after World War II, the government broke the monopolistic position of the Aluminum Company of America by using indirect government subsidization to establish four additional aluminum companies. In the case of the automobile industry, the President of the United States, about three years ago, directed the use of Defense Department procurement powers to subsidize the continuation of one of the five remaining passenger car companies.

The competitive principle also enables consumers to reward companies that successfully meet their preferences and reject companies that fail to do so. Through this process, consumers decide which companies and which industries shall grow and which shall be eliminated. Elimination, or economic death *is* and *should be* the penalty of economic failure in a competitive society. It keeps our economy healthy and responsive to consumer desire and need. In the automobile industry, about a thousand companies have been eliminated. Indeed, in most of our basic industries, the competitive discipline of the market place has reduced the number of companies to a mere handful. In the case of the automobile industry, in my opinion, the five passenger car companies left constitute barely the minimum necessary number for adequate consumer choice and discipline.

Yet as long as the competitive principle is operating, there is and always should be the likelihood of further company failures and deaths. Do we agree that consumer choice and economic stimulation are dependent upon an adequate minimum number of competent competitors? Can we further agree that we do not want to moderate the disciplinary function of the competitive principle? And, further, are we convinced that the continued effective operation of the competitive principle is likely to result in further company failures or death? If our answers are yes, then how are we going to maintain an adequate minimum number of competitors in the automobile industry? I think there are only five alternatives:

- *The ability of each of the remaining companies to escape economic fail-*

ure. In light of earlier competitive history, this would appear to be a mathematical impossibility.

• *The restraint of competitive effort to permit the survival of weaker competitors.* To the extent that this practice exists, it deprives our nation and individual consumers of the benefits of genuine competitive effort, and may lose for us the struggle for international leadership. We cannot afford competitive slowdowns.

• *Government action to subsidize weak competitors.* This approach is unthinkable as a matter of national policy: it leads to "statism."

• *Some form of government regulation.* This approach would involve arbitrary government action to preserve marginal or sub-standard producers or lead to industrial concentration and monopoly. It, too, is "statism."

• *Provision for economic birth as well as economic death.* This approach I would like to develop by specific example.

General Motors

As a result of competitive deaths, many basic industries are now dominated by one, two, or three large companies, and there is growing doubt about adequate competition. Some people argue that we don't need to be concerned about plenty of competition in the automobile industry and other major industries. I do not agree. On the contrary, I believe the competitive principle has operated in the automobile industry and other industries to the point of excess concentration.

Not only has General Motors dominated the automobile industry for the past twenty years, but in the absence of an adequate and effective anti-trust policy its competitors have existed because of the pursuance by General Motors of policies that permitted them to exist.

General Motors has the power to eliminate some other companies from the industry. Evidence of this is contained in its profit level. If it should decide to operate at a satisfactory average of loss and profit for all industry, of say 6 per cent, there would be fewer companies left in the automobile industry in a short time.

Because of its tremendous contribution, General Motors is entitled to much more than an average profit. To provide incentive and competition, the champion of industry should expect and receive a champion's reward. If he does not, he reduces or eventually eliminates the rewards for everyone else. It is one road to establishing and maintaining a monopoly position.

Another point of grave concern is that the championship level of General Motors' profits has become the focal point of the UAW's collective bargaining demands directed essentially at General Motors and the union has used General Motors' greater ability to pay to convince the public that the union's demands can be met by the firm without serious financial difficulty.

The key question raised by the UAW collective bargaining strategy is: Are General Motors' profits too high? This question must be answered to the satisfaction of the American public. Finding the right solution to our national labor policy, our national anti-trust policy, and indeed to our current concern over the wage-price spiral depends on arriving at the right, the true answer.

I think to find the true answer the people need to know this fact: that unless we are going to substitute some other means of disciplining our economy for the purpose of competition (the only other means I know of involves absolute authority of either a public or a private character), then the question of whether a particular company is making too much money depends on whether that company lacks adequate competition. If the company is earning the money in the face of an adequate number of competitors, then its profit becomes a measure of its efficiency and ability and a measure of reward for its contribution. To deny a high profit level for reasons other than a company's domination of a market or its lack of an adequate number of competent competitors would be to destroy the effectiveness of freedom and incentive in the American economy.

Before the Kefauver Committee last year, I made these precise recommendations pertaining to degree of market domination in such industries:

When an individual company engaged in only one basic industry is doing more than 35 per cent of the business, or when a company engaged in more than one basic industry is doing more than 25 per cent of the business, such companies should be required to submit their own programs for reducing their percentage of the particular business involved. An obvious way for them to do this would be through the creation of more than one company from the old company. In other words, by the process of division, or economic birth. Adherence to such percentage figures guarantees the future existence of four or five companies in each basic industry. It does not require the breaking up of General Motors, or any other company, into more than two companies even on the basis of General Motors' present position.

While some seem to think that this is a radical idea, basically, it isn't new at all. The basic idea is identical to that used in the anti-trust laws to break up an unlawful monopoly. The best known example of this was the old Standard Oil Company which was broken up into what has become 38 companies, of which four are among the 20 largest American companies. The basis for that break-up was decided by the government.

Within the past year the Department of Justice has resorted to the principle of economic birth to resolve an anti-trust case involving the United Fruit Company. In this instance the Department of Justice entered into a consent decree as a result of the United Fruit Company agreeing to create within ten years a separate company to engage in the same business as an independent competitor. If American consumers are suffering from the consequences of United Fruit Company's concentration, isn't ten years a rather long gestation period for the creation of needed competition? In principle, the proposal I have made is substantially the same except that the company involved would be permitted to determine the basis of the division or birth. Only if it failed to act within a reasonable time would the government determine the basis of division or divestiture.

This proposal would reward, not penalize General Motors for being successful. It would give us the advantage of two companies with the potential competence of General Motors, instead

of one. One of the highest compliments you can pay a person is to say, "I wish you were twins."

Furthermore, analysis of the current position of General Motors shows that it cannot grow significantly in the automobile industry without finding itself in difficulty with the government and the anti-trust laws, even though the laws are currently deficient in their application to companies that clearly dominate an industry.

Experience with the anti-trust laws indicates that they do not effectively apply to companies on the basis of their possession of excess economic power or their ability to monopolize an industry. Basically, the present anti-trust laws apply where excess power of a monopoly position is used with the "intent" of monopolistic action. This necessity of proving "intent" has been one difficult aspect of applying the anti-trust laws to the growing concentration in American industry.

I do not suggest that General Motors has deliberately undertaken to establish its present position of power in the automobile industry for the purpose of dominating the industry or establishing a monopoly. Nevertheless, it has established the position that gives it the power to do so.

Voluntary Cooperation and Economic Birth

Adoption of a "birth policy" would, I believe, change the attitude toward industrial growth without enactment of new laws but simply the modernization of the old. Building a company to the point where it became a source of more than one company could become a recognized industrial achievement of the highest order.

Some have suggested that such a policy of economic birth would deprive us of the benefits of size, research, improvement, growth, incentive, consumer benefits or national defense. Criticism of this proposal on these grounds overlooks its inherent nature, and the present industrial and defense practices. While discussion of these lies outside the scope of this article, it should be noted that the proposal would not end bigness and that the principle of economic birth is one of the keys to unlimited opportunity for industrial growth and progress. Without this principle, a company like General Motors at some point is confronted either with the question of holding its percentage of a market below whatever level it is considered dangerous to exceed for fear of anti-trust law action, or the consequences of anti-trust action and mandatory division. The alternative is government control and regulation.

Aside from assuring the maintenance of an adequate minimum number of skilled competitors in our basic industries, how would this proposal benefit the nation?

- As already pointed out, it would insure an adequate degree of consumer choice and competitive discipline.

- It would remove the shackles from corporate growth.

- It would provide the basis for effective industry cooperation by basing that necessary function on a greater degree of competitive equality.

- It would remove a principal excuse for the excess power now wielded by monopolistic unions. The significance of this benefit should not be underestimated. A public opposition to excess concentration of industry power would

strengthen public opposition to excess union power. The latter problem will not be effectively corrected until a national political party convincingly dedicates itself to the elimination of excess power, whether in industry, unions or elsewhere.

• By paving the way for the elimination of the conflict in our national economic policy—the conflict between the competitive policy of the anti-trust laws and the monopolistic policy of the labor laws—it would result in employer and union responsibility being organized on common economic principles and the end of economic conflict based on class warfare.

• Finally, it would reduce the threat of government regulation and, by a more adequate division and dispersion of private power, decrease the justification of the excessive concentration of federal power.

Except for the part played by self-discipline (certainly an indispensable part), ultimate discipline in any society must rest on the competitive principle or the exercise of absolute authority. Basically, our choice is between competition and regulated industrial concentration or monopoly. Competition results where the government establishes policies that insure the effective operation of the competitive principle. This makes it unnecessary for the government to engage in detailed regulation. On the other hand, regulation on the basis of industrial concentration or monopoly invokes detailed regulation of the important elements of enterprise and compels the government to substitute its decisions for the consumer's decisions.

We are moving in the direction of governmental control resulting from a lack of confidence in the adequacy of competitive discipline. Such central control and regulation is the brute strength of communism. It is not the superior strength by which America has achieved the highest known degree of human well-being and material abundance. We stress the element of human well-being and self-realization ahead of our material abundance because in shaping our national policies and programs we must give priority to the opportunity for individual expression and growth if we are to realize the greatest results in a material way. The two are interlinked.

The Analogy of Labor

When I appeared before the Kefauver Committee last winter, the most gratifying result was the flat statement by each Democratic member at the end of my testimony that they recognized the need to divide both the power of unions and excessive industrial concentration. This raised my hopes because of the fundamental change this represented in their position. They had previously attacked industrial concentration but had been silent about the even greater concentration of union power. It was deliberately political, therefore, when the committee majority limited their automobile recommendations to an attack on General Motors. Our economic situation would be impaired, not improved, by action that would reduce the ability of General Motors to withstand the monopolistic power of the UAW. To seriously propose the division of General Motors and at the same time to ignore the even greater concentra-

tion of union power is a narrow and dangerously short-sighted political position.

The Principles of Consumerism

Again, what we desperately need in this country is a political party that will dedicate itself to the fundamental principles of Americanism. These principles have from the beginning called for the dispersion and distribution of all forms of power—political, economic, social and others.

We have a long way to go in developing our present degree of economic freedom to the point where it will provide full opportunity for economic expression and participation by each willing American. Our past acomplishments have not produced organizational structures that have provided self-realization for all. Fortunately, we have proven the fundamental essential economic principles necessary for our rush into the space age with all the economic, social and political implications of atomic power and electronics.

Adherence to principles of consumerism is vital if America is to provide world leadership in the space age. However, this is in jeopardy because we are approaching the point of no return in reversing the trend toward centralization of political, economic and social power. Heaven help us if we substitute "statism" for Americanism. Unless Americans—and particularly American businessmen—are willing to witness to the truth as they know it, and work diligently on the problems as they recognize them, there is no hope for our future.

The magnitude of our past success in America, though it confronts us with problems of a most fundamental nature, has also opened the door for unlimited accomplishment. Our frontier is as broad as knowledge and space and the unlimited capacity of human beings. It is world-wide. We need a space age outlook. We also need to envision what America can do by fully establishing political freedom and more effectively developing the principles of economic freedom. We need modern political, economic and social pioneers and nonconformists who cannot be deterred by material plenty, political ambition or social diversions. We need American pioneers with a world vision and a world identity based on a dedication to the principles of human liberty, social justice, world peace, economic abundance and the divine rights of man.

United States-Canadian Relations I

A New Era of Interdependence

GERALD A. NEWMAN

Closer ties require a closer appraisal of causes of stress that hinder cooperation.

A hot industrial expansion and a cold war are annealing new bonds between Canada and the United States. So close and intricate has this relationship become since the last war that it may be termed the New Era of Interdependence. Congressmen Frank M. Coffin (Democrat, Maine) and Brooks Hays (Democrat, Arkansas) recognized this in their first report on Canada-U.S. relations. In it they stated their basic philosophy:

> Canadian and United States interdependence demands a new category of relationship. Canada does not stand in a position toward us of a "foreign" country. By no means should it be considered as a poor relation. The concept to be realized in the best interests of both countries is that of free and powerful nations of different background and capabilities, united through a basic agreement on values and aspirations, and voluntarily joined in enterprises, domestic and foreign, calculated to strengthen the chances for a world reflecting their common values. This is the challenge for Canadian-United States relations.

The Congressmen did a lot of traveling and talking in Canada to arrive at this point of view, and it is the time lag in the thought of those on both sides of the border who have not had the same opportunity or inclination that is giving rise to the signs of stress and strain reported recently in the press.

Events seldom wait on rationalized thinking, and today the United States and Canada are confronted with such thought-provoking conditions as a unified North American defence, a need for mutual support in foreign affairs, and an ever-increasing inter-relation in trade, industry, and investment which is already greater than between any two other countries.

THE HONORABLE GERALD A. NEWMAN *is Canadian Consul General, Chicago, and as such is unusually well qualified to discuss the economic relationships of his country and ours.*

These are some of the surface manifestations of the Era of Interdependence. The fact that they are being experienced, in spite of some alarums, with such a minimum of friction as to be held as models of goodwill between two countries, is due to a less apparent but important supporting structure which has been in the course of construction through the past two hundred years.

Accounting For Stress

During this period Canadians were changing an obviously awkward and rugged terrain into a pattern of national integrity. Areas whose geographical flow was north and south, they linked with railways and political machinery into an east and west identity which above all else they are determined to maintain. This is a basic fact in any thinking about Canada. Failure to appreciate its significance accounts for much of the stress in the New Era of Interdependence.

At the same time there was an intermingling of peoples, intercommunication, and social relations between the United States and Canada to a degree unprecedented in the new world. After the fall of New France, American traders joined with other English-speaking traders in working the St. Lawrence Seaway fur trade. The United States War of Independence sent hundreds of their former fellow-citizens into the Canadian Maritime Provinces and Ontario. In the 1900's land hungry Americans from Illinois and Iowa and other states moved into Western Canada, and now half the State of Texas is working the oil and gas developments in Alberta. In return, there was a steady trek of Canadians into the United States seeking business and professional opportunities which burgeoned with the country's unequalled prosperity and industrial expansion.

United States prosperity and growth gave birth to a flow of popular publications into Canada which that country could not hope to equal; it fed its youth on weekend doses of Hollywood glamour, and bemused their parents later with American radio and T.V. programs. Today most Canadians are convinced that they know all they need to know about the United States, although they would be pretty hard pressed to explain the convolutions of Congress. Perhaps the assumption is not fully justified, but it is serving to take away the sting of suspicion of United States motives in the new era of interdependence. Canadians feel that they are looking from the inside out, not from the outside in, when they are dealing with Americans.

Close Ties of Today

This sense of confidence is bolstered by the fellowship in Rotary, Kiwanis and other service clubs which span the border; by common religious denominations; close-knit labour unions, and the intermovement of students and faculty in higher education. Today it is estimated that there are over 5,000 Canadian university students in the United States and some 1,700 to 1,800 American students in Canada. Add to this the constant intermovement in business and tourist travel, which requires millions of border crossings each year, and you begin to glimpse the basis for the confidence and goodwill which are as fundamental to Canada - United States relations as Canada's determination to maintain its integrity.

THE LARGER ASPECTS

It is on this quiet but thoroughly achieved relationship that we begin to move into the more spectacular manifestations of Interdependence. Under mutual commitments to NATO, Canada and the United States have assumed responsibility for defending the North American perimeter of NATO's concern. In practice, this required the establishment of three Early Warning Lines across the periphery of Canada—the most logical frontier to be defended under present cold war conditions. It was equally logical to recognize the need of a close joint defence to take advantage of the few minutes of grace that such a warning system afforded. And so out of sheer logical necessity there has emerged a joint air defence in which the Commanding Officer is an American and his Deputy a Canadian. It is the rest of the pill that is proving difficult to swallow, namely the providing of equipment for the defence.

It is characteristically Canadian that Canada, which accepted no financial aid from the United States during the last war, has paid one-third the cost of the Early Warning Lines, and in the last five years, about $297 million in defence material in the United States, compared to U. S. defence contract expenditures in Canada of $340 million—and this in spite of a population which is only one-tenth that of its greater neighbor, with an even smaller comparative national income.

Canadians are proud and willing to do their part, but they find it difficult when confronted with the need of junking an approved plane program in favor of missiles. It meant the casting aside of a project on which $400 million had been spent, and closing out employment of 14,000 Canadians, many of them highly skilled technicians.

Consequently, in the interest of adequate joint defence, Canadians were obliged to witness a frustration of their taxes — further unemployment when unemployment is already at its peak — and the increased expenditure of Canadian funds in the United States for missiles, even though Canada already suffers a serious imbalance of trade with its ally. It is understandable, therefore, that Canadians feel that this new Era of Interdependence is not without its pains.

National Integrity

In the field of foreign affairs, Canadians are quick to resent any suggestion that Canada is a satellite of the United States. It is true that the same logic which calls for joint defence, enforces the need for cooperation in reducing the possibility of such defence ever being used. And the same basic concepts of individual integrity and freedom are likely to promote a common viewpoint in other aspects of international affairs.

But Canada's policy in foreign affairs is distinctly its own, and it is likely that its activities as an independent nation contribute more to world peace than any satellitism could ever accomplish. In a world where the two giant powers, the United States and Soviet Russia, are so frequently "frozen in suspicion," maneuverability remains with the secondary powers. Here Canada's contribution is happily summarized in a recent speech by Congressman Frank M. Coffin:

Here, then, is Canada—a nation unsurpassed for its ties with other nations. It is a North

American nation; a Western Hemisphere nation; an Atlantic nation; a North Atlantic Triangle nation (with close ties to both the United Kingdom and the United States); an Arctic nation; a Commonwealth nation; a Colombo Plan nation. The significance of this amazing network of relationships is simply this: given a consistent policy of awareness, of sharing of trust, of forbearance on our part, she can be a reliable and ingenious interpreter and broker in many of the world's economic and political markets.

The rush of events which is pushing Canada and the United States into this new era of interdependence is also apparent in the enormous and increasing flow of trade between the two countries. The rapid rise of American branch plants in Canada and the record investment of U. S. funds reflect the fact that the world's need for industrial materials is now catching up with the natural resources stored in Canada. United States industries, and especially those in the Midwest and Lake State areas, are looking more and more to Canada for their iron ore, non-ferrous metals, lumber, and newsprint. At the same time, the rapid Canadian industrial expansion in response to such demands has made Canada an exceedingly attractive market for U. S. manufactured goods.

THE MAJOR PROBLEM

Here is a double-barreled interdependence accelerated by such developments as the St. Lawrence Seaway in Eastern Canada and the oil and gas extraction of Western Canada. It is reflected in Canadian imports from the United States in 1957 of goods and equipment to the value of $4.1 billion, and exports to the United States in the same year to the value of $2.8 billion. It resulted in a favorable balance of trade to the United States of over a billion dollars. It is this imbalance of trade which creates the major problem in what is obviously a very desirable development from both the Canadian and American point of view.

The problem arises from the fact that in varying amounts this imbalance has persisted through the years and has steadily increased in the past decade. Prewar, it was met by Canada exporting more to Great Britain, Europe, and the Commonwealth countries than it imported, leaving the favorable balance thus created to offset the imbalance with the United States. The war, in destroying production capacities of these overseas markets, at the same time destroyed this profitable triangular trade arrangement.

A Temporary Solution

Since the war, Canada has been obliged to think in terms of parallel trade with the United States. The only reason the problem has not become acute is that the unfavorable balance in the era of interdependence to date has been settled through increasing United States investments in Canada, which have been growing recently at the rate of about $800 million a year. Canadians believe that it is unwise to assume that investments in this volume will continue and that sooner or later they must look to their exports paying for a fair share of their imports, insofar as their trade with the United States is concerned.

It is at this point that commercial thinking is proving archaic and disjointed compared to the logic which has been adopted in respect to events in defence and foreign affairs. One vital point in the Canadian economy is that economical production in any major industrial group is predicated

on a supply of products, be it wheat, newsprint, or metals, which greatly exceed the consumptive capacity of Canada's 17,000,000 people. Consequently, exports are a matter of major importance and represent close to 20% of Canada's gross national product. Canada's ability to pay for U. S. imports lies in the continuous and heavy flow of commodities to the United States in three major fields: forest products, industrial materials, and potentially, at least, power materials such as gas, oil, and uranium.

At present the United States has placed quotas in two of these three fields on lead and zinc in the industrial area, and on oil in the power potential classification. Irrespective of the immediate effect of these restrictions, which are designed to protect marginal interests in the United States, if continued and others are added on the same principle, it could cut directly into Canada's capacity to maintain imports from this country. At the same time, it obviously weakens Canada's economy because of the importance of her export trade and indirectly weakens the industrial position of the Midwest and Lake States, whose competitive position is dependent on an unrestricted flow of raw materials at the lowest possible price.

It has been mentioned earlier that United States capital investment has contributed to the tentative easement of the problem of imbalance of trade. At present, long term investment in Canada is in the neighborhood of $11.8 billion. This flow of capital is more evidence of interdependence whereby United States needs and Canadian expansion have worked happily together. United States investment in Canada is one of the strongest agencies of interdependence—but like the others it has its uncharted zone to be brought into a workable relationship.

In the National Interest?

Through no overt design, but directly as an expression of need and confidence, United States investments now dominate in capital control many of the major Canadian industries—such as motor cars (95%); petroleum (68%); mining and smelting (54%), and chemicals (51%), to mention a few. It is giving rise in Canada to considerable questioning as to whether or not industries and companies so controlled are working in the national interest as well as that of the nonresident shareholders or parent United States companies.

There is plenty of evidence to suggest that while such companies are certainly contributing by their very operations to production growth, versatility, and employment, there are margins of unacceptability in some of their policies and actions. Exports of some of the branches are throttled or controlled from the United States to a degree that arouses concern in a country where freedom to export is an economic necessity; the long arm of the United States trust law apparently recognizes no national barrier, when determining what the United States company or its branches (in this case Canadian branches) may do, even though the branch is acting in accord with Canadian law.

It is not surprising that such concepts of control arouse sharp protest from Canadian sources—and give rise to questioning as to whether or not Canada's integrity as a nation is being

undermined by this close and increasing association with this big, friendly, and blandly assuming giant to the south.

A CANADIAN RESPONSIBILITY

That question, I think, is one that must be resolved in Canada, and judging by the firmness and persistence of Canadian reaction in all fields, it does not seem likely that Canada, barring a catastrophic war, will be other than Canada in the foreseeable future. It is, however, the very essence of this state of integrity that her people continue to keep alert and, within reason, are constantly pressing their position. It is a course of action which has served Canada well in its evolution into nationhood.

Two-Way Interrelationship

Indeed, much that needs to be put into an orderly and logical relationship in the New Era demands that Canada project its views into American thought, with greater strength and consistency (but without acrimony) than is being done at the present time. Admitting that Canada's resources are much smaller than the United States' in the field of communication, still there is abundant room for a better organized effort on the part of the Canadian community to put across "the Canadian story". That is a Canadian responsibility.

On the other hand, it is also important that those agencies in the United States which have much to do with Canada—and that includes particularly the trade and industry communities of the Lake and Midwest States—need to recognize much more clearly an identity of interest with Canada that defies the parochialism which is now replacing isolationism in the Midwest.

The Era of Interdependence, properly ordered, will enable both Canada and the United States to achieve a measure of common good both at home and abroad, beyond anything that has marked this fledgling era to date.

United States-Canadian Relations II

The New Awareness

FRANK M. COFFIN

An interparliamentary experiment may mean more effective understanding.

There are many new dimensions in the relations between the United States and Canada. They range from defense, trade, transportation, power, travel, education, culture, investment, management, labor, and resource arrangements to diplomacy in most areas and in most groupings of the world.

There is certainly a new awareness on both sides of the border. That on the Canadian side has come earlier, sunk in deeper, and spread wider. It is a popular theme, originating spontaneously from many sources, lending itself to political uses by all parties and tending to be (so far as U.S.-Canadian relations are concerned) more divisive than cohesive in its impact. In short, the new awareness on the Canadian side is a natural instrument of nationalism.

On the United States side of the border, there is also a new and unmistakable awareness. But mark the differences. It is less than two years old, although some educational and business groups have long been playing this theme. It began, quite self consciously, with a few of us in Congress, caught on in some executive departments, attracted the attention of some observant commentators, and has reached the stage of quite formal cabinet and Congressional arrangements. It is spreading both in Congress and in the public mind, slowly, deliberately, almost painstakingly. There is no political lodestone in this movement. To some extent there may be political liability. The tenor of U.S. awareness at present is a constructive one, placing more emphasis on hearing

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THE HONORABLE FRANK M. COFFIN ***(Democrat, Maine) is a member of the United States House of Representatives and its Committee on Foreign Affairs. This article is adapted from a speech given at the Canadian-American Relations Seminar, MSU, March 9, 1959.***

the other side than on stating its own case. These factors justify one in saying that the new awareness on the U.S. side is a hard wrought instrument of international accommodation.

The differences in awareness are natural, in view of the disparity of size, of population, wealth, and influence of the two nations. The comparison implies no moral judgments. I predict that as the new awareness loses its novelty there will emerge international overtones in Canada and national themes in the U.S. What we can hope for is a balance on both sides so that there can be the adjustment of problems with no injustice to the national aspirations of either country.

Awareness is in itself neither good nor bad, or, perhaps more accurately, it can be both. It is good when it leads to effective action to deal with a situation. It is bad when it is a static state, leading nowhere except to frustration. It is still too early to say which of these roads the new awareness will travel. But the time will soon come when we can tell.

Disillusionment and Waste

There are two dangers that threaten. One is that we who are actively enrolled in the awareness forces shall try too little. The other is that we shall try too much. In either case we shall be harshly judged by impossible standards of excessive expectations. What I mean by trying too little is that we may feel that all that is needed is occasional fellowship meetings, strong on the amenities and weak on the specifics. Should meetings at cabinet, sub-cabinet, or Congressional levels be too infrequent, too short, too poorly prepared, too press-release conscious, there will set in a disillusionment that will undo much of the good work that has been done.

The opposite trap lies in trying to do too much. This would happen if the various executive groups or our Canada-U.S. Inter-Parliamentary Group failed to recognize their limitations. There are some problems that are unsolvable; there are others that only time will solve; still others can be solved but by other groups or in other contexts. For example, it would not in my opinion be productive if our inter-parliamentary group were to set itself the task of trying to arrive at a consensus on tariff matters or of trying to persuade the other side of the soundness of our position. Here we may well find that a consensus is impossible and that national positions are fixed and at least temporarily immutable. It would be a waste of time, talent, and opportunity if this group should take upon itself the role of a perpetually hung jury.

THE INTERPARLIAMENTARY GROUP

It is right and proper for both executive and parliamentary joint bodies to begin their work by developing an agenda for discussion. Much good can come by way of understanding and tolerance simply from the presentation of different views of the many problems existing between the two nations. But eventually there will come a time when awareness for awareness' sake will not be enough.

When this time comes, what function will our inter-parliamentary group serve? I have been deeply concerned over the proper and fruitful function of this group in the long run. After

all, we have taken an unprecedented step in the technique of international relationships. There are other inter-parliamentary organizations. These, however, involve many nations, large memberships, and obvious limitations in marking out fields of common interest. Their purposes are and must be of the broadest scope and general in nature.

What is different about the Canada-U. S. Inter-Parliamentary Group? What is its justification? There are some who fear that this may be a precedent for forming bilateral parliamentary liaisons with other nations. The answer to this fear lies not in political theory but in the opportunities for meaningful collaboration.

Its Opportunities

These opportunities arise from the length of the 4800 mile common border; the infinite daily crossings of people, goods, services, and ideas; the interdependence of the two nations in defense, in economic development, in diplomacy; the multiplicity of friction points and problems. The essential point is that the very intimacy of relationships creates problems which overpower the ordinary channels of collecting, analyzing, discussing, and acting on information. Even with such a close and important ally as the United Kingdom, distance from the U.S. and proximity to other nations blunts the edge of "the American problem". There may even be a kind of diplomatic law of thermodynamics: the farther apart countries are, the more adequate are the ordinary channels of relationships; the closer together they are, the more need exists for extraordinary arrangements.

Its Function

It is my conviction that a flexible but continuous relationship between the law-making groups of complex and advanced neighboring nations is eminently sensible, if those concerned see and remain faithful to their proper function.

That function is, in my opinion, not so much the attempt to solve problems as it is the continuing and systematic effort to improve the procedures for recognizing, discussing, and solving problems. This distinction could be the means of avoiding stand-off stalemated sessions between people who lack the power to solve the problems they are discussing. It could be the key to a limited but highly useful service.

For example, I can easily imagine Canadian and U.S. parliamentarians getting nowhere in persuading their opposite members to change their positions relating to lead and zinc. But I can imagine them coming to an agreement as to the manner in which metals policies should be changed, as to the usefulness of full discussions before changes are made, as to the need for exploring noncontroversial fields such as research, marketing, and the gathering of world-wide data as to supply and demand.

This function would require an orientation toward procedure. The objective would be what former Congressman Hays and I have called "mechanisms which will guarantee—if not a solution—an orderly, regular, and routine method of discussion, exchange of views, and, if possible, agreement on action."

Its Mechanism

Here is how I would visualize

the Canada-U. S. Inter-Parliamentary Group working. It would begin with a full exchange of views on the major problems besetting the two nations. This process of mutual education could be expedited by the preparation of position papers on the various subjects by the members of each side. These papers would be exchanged by the two sides before the first series of meetings. Oral exchanges would then be encouraged.

A Canadian and a U.S. parliamentarian could be assigned the task of preparing a summary for each subject. This would include a description of the problem, the Canadian and U.S. positions, a report of any consensus that could be arrived at, a statement of the remaining issues, and a description of possible approaches to solution.

At this point, possibly at a subsequent meeting, the subject matter is taken up again, but from a different point of view. The focus shifts to possible procedures. Such questions as these would be explored: Is there need for more research on the problem? Is there need for better communication of facts or positions to interested parties, government, or the people and government on the other side of the border? Is there enough opportunity for the interests or people on both sides to discuss the problem? Is the communication between governments frequent enough, easily achieved, and responsibly considered? Is there need for advice to governments? Are additional structures needed? How can citizens or citizen groups help? Does experience in other countries offer a lead? Should the problem be considered in the broader context of the free world?

In trying to answer these questions the Group would be well advised to invite those intimately involved in the area under discussion to talk, not primarily on the merits, but on the procedures and mechanisms which might lead to solutions.

A vital part of the Group's function would be that of a friendly watchdog on the effectiveness of the relationships between the executive branches of the two governments. To change the figure, the Group would serve as an anti-coagulant to the Canadian-United States blood stream. There are certain natural tendencies of bureaucracies: to resist change, to do things as they have been done before, to reduce the level of decision to that of the lowest common denominator, to avoid seeking new problem areas, to delay moving into an area that looks like added work, to put off meetings that might be difficult or inconvenient, to avoid bringing issues to a head where one's department might not appear to advantage, to limit meetings and discussions to platitudes, and, above all, to cultivate an abiding distrust of and contempt for the legislator.

A PROCEDURAL SERVICE

The "oversight" function of Congress is well established. I am not sure to what extent the Canadian Parliament exercises a similar function, in view of the fact that the leaders of the executive branch also serve as leaders in Parliament. Nevertheless, there is no reason why the Canada-U.S. Inter-Parliamentary Group could not keep track of the relationships between the executive branches, and make observations as to their improvement. The U.S. members of the group could,

for example, study the extent to which joint Cabinet Committee meetings had been prepared, agenda set forth, background briefings given to participants; the extent to which each government consults with the other in advance of a policy shift; the adequacy of "opposite number" communication and discussion at career staff levels; the need for additional executive relationships; the need on each side for coordination and centralization of data in all the areas of concern. The Canadian members could, I am confident, find areas where their government's procedures could be improved.

The mere fact that an informed and interested group is serving as a procedural watchdog will do much to stimulate a higher level of performance by executive personnel both in their planning for meetings and in their day-to-day performance. What I have been suggesting is not an antagonistic role for the inter-parliamentary group. Its observations should be made to the respective governments in a friendly, even private manner. No good purpose would be ordinarily be served by blowing up criticism of either government by the lawmakers of either nation.

Results to be Expected

The results of the lawmakers' group operating in the procedural area might not be dramatic. We hope, of course, that over a period of time there will be enough members of Parliament and members of Congress educated to see the point of view of the other nation to make possible the passing of salutary laws or the removal of some irritants. But in the meantime a worthy purpose will have been achieved if new channels of communication are opened, if interchange of views reaches a new level of attention, if roadblocks to consideration of problems are removed.

The function I have described is a legitimate role for the parliamentarians of both countries. Both countries have the representative form of government. The M.P. and the M.C. both represent their constituents. They are close to them, know their problems, and are the instruments through which their people speak. The representative can bring to the overwhelming task of Canadian-United States relationships the insights and irritations of the farmer, businessman, shopkeeper, and tourist. The parliamentary member can supply the leaven of the generalist to the loaf of the specialist.

We are entering a period of great and continued strains and stresses on both our nations. This new experiment in parliamentary relationships can well serve to minimize these pressures. It will do this if it helps direct the new awareness into areas of fruitful activity. We shall have succeeded in our task when it is no longer newsworthy to hold seminars about awareness. Our objective is to make awareness commonplace, routine, undramatic, and highly productive.

The following is the resolution intended to implement Mr. Coffin's proposals.

86TH CONGRESS
1ST SESSION

H. J. RES. 254

In the House of Representatives

FEBRUARY 18, 1959

Mrs. KELLY introduced the following joint resolution; which was referred to the Committee on Foreign Affairs

Joint Resolution

To authorize participation by the United States in parliamentary conferences with Canada.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That not to exceed twenty-four Members of Congress shall be appointed to meet jointly and at least annually and when Congress is not in session with representatives of the House of Commons and Senate of the Canadian Parliament for discussion of common problems in the interests of relations between the United States and Canada. Of the Members of the Congress to be appointed for the purposes of this resolution (hereinafter designated as the United States group) half shall be appointed by the Speaker of the House from Members of the House (not less than four of whom shall be from the Foreign Affairs Committee), and half shall be appointed by the President of the Senate from Members of the Senate (not less than four of whom shall be from the Foreign Relations Committee).

SEC. 2. An appropriation of $30,000 annually is authorized, $15,000 of which shall be for the House delegation and $15,000 for the Senate delegation, or so much thereof as may be necessary, to assist in meeting the expenses of the United States group of the Canada-United States Interparliamentary group for each fiscal year for which an appropriation is made, such appropriation to be disbursed on vouchers to be approved by the Chairman of the House delegation and the Chairman of the Senate delegation.

SEC. 3. The United States group of the Canada-United States Interparliamentary group shall submit to the Congress a report for each fiscal year for which an appropriation is made including its expenditures under such appropriation.

SEC. 4. The certificate of the Chairman of the House delegation or the Senate delegation of the Canada-United States Interparliamentary group shall hereafter be final and conclusive upon the accounting officers in the auditing of the accounts of the United States group of the Canada-United States Interparliamentary group.

HARRY G. BRAINARD

American Investments Abroad II

Specific problems of the American investor and the host nation are treated in this, the second of two articles. Some general conclusions bear on our foreign policy.

In an earlier article the writer discussed the extent, nature, and geographical and industrial distribution of American private investments abroad. An attempt was also made to explain the basis of foreign investments. What was said there needs to be summarized briefly here as a background of the problems now to be discussed. Long-term private foreign investments at the end of 1957 stood at $33.6 billion, of which three-fourths were of the direct type. This represented a record increase over 1956 of $3.5 billion. Of United States direct investments in 1957 of $25.3 billion, 35 percent was in Latin America and 33 percent was in Canada; the remaining one-third was split about evenly between Western Europe and the rest of the world. In much the same way industrial distribution was highly concentrated in two areas—36 percent in petroleum and 31 percent in manufacturing.

Certainly for portfolio investors, and to a considerable degree also for direct investors, the expectation of profit is the main reason for investing abroad. Direct investments may also be made where necessary to obtain raw materials and, to some extent, in order to broaden the market for a firm's products. For their part foreign nations can benefit from outside capital where the result is to accelerate the exploitation of a natural resource or to establish basic industries and commercial institutions.

From this brief statement of the nature and distribution of our private investments abroad, a question of considerable importance emerges. What is the explanation for the heavy concentration of capital in the Western Hemisphere and in the extractive industries and manufacturing? Why has United States private capital not been invested in underdeveloped nations in other parts of the world? Many of the nations in the Near and the Far East have untold natural resources; they need manufacturing and industrial en-

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terprises; and our government, in conjunction with the United Nations and the World Bank, has made grants and loans in the past decade totaling billions of dollars. There is no simple answer to the query; it is, on the contrary, complex. A tentative explanation lies in the fact that the problems faced by American investors are less severe and more easily solved in the Western Hemisphere and Western Europe than elsewhere. Furthermore, it is possible that the nations of these areas have created a climate more favorable to United States capital than prevails in other areas of the world. There is no sure way to know whether this explanation has validity, but it may be worth while to state in detail the obstacles faced by American investors and to suggest some of the complications that arise in a foreign country when capital from abroad is invested in its industries.[1]

OBSTACLES TO AMERICAN FOREIGN INVESTMENTS

To catalogue all the obstacles and problems that confront American investors abroad, especially those who establish businesses—that is, direct investors—is beyond the scope of this article. It is desirable, however, to indicate the more important ones and to present them in summary form under the following main topics: the growth of economic nationalism, disturbing political and social movements, and a catch-all category which can be called unattractive economic conditions.

Growth of Economic Nationalism

In order to understand why economic nationalism is an obstacle to private foreign investors, it is necessary to state briefly the forms it takes. First of all, nationalism may mean that government policies are promulgated which result in the expropriation of privately held enterprises by a public agency. Railroads may be nationalized as well as oil and mineral resources and the process may go to the point where manufacturing industries of various types are taken over by the state. Another type of nationalistic action is especially disturbing to foreign investors: the state, rather than expropriating their enterprises, may encourage acquisition by its own nationals. This can be done by requiring that at least 51 percent of the stock be owned locally or that a certain number of executive positions and board members be nationals, or by a variety of other methods. Government ownership does not come about but national pride is recognized—perhaps to the detriment of the foreign firm.

The most recent case of outright expropriation of foreign-owned enterprises by the state is, of course, Suez and British commercial interests in Egypt. The results of this action are clear and unequivocal. Foreign private capital is unwilling to move into the Middle East unless iron-clad guarantees are given, and governments themselves have been reluctant to make major commitments. Thus the financial assistance from Western nations necessary to build the Aswan dam on the Nile is still not forthcoming. The risks involved are simply too great.

Nationalistic policies of a less drastic character prevail in Latin America and other parts of the world. The fear of expropriation without either prompt or adequate compensation is, however, a constant threat. The Department of

Commerce study to which reference has already been made suggests that the possibility of this type of action is especially serious "in view of the reluctance of some countries to admit the right of any foreign government to make representation in cases of alleged denial of justice by the local authorities."[2]

Outright nationalization of foreign enterprises is there for all to see, but practices which may be called "creeping expropriation" are not so obvious, though more disturbing to foreign investors. One illustration will serve to indicate why this is the case. The Creole Petroleum Corporation, which has operations in Venezuela, has reported a decline in earnings of $397 million in 1957 to an estimated $239 million in 1958. This drop is attributed to a recent Venezuelan regulation that now provides for splitting petroleum profits 60-40, instead of the previous 50-50 arrangement.[3] This new formula simply means that the capitalized value of foreign assets declines; expropriation occurs as the proportion of earnings that can be retained is reduced. Carried to its ultimate conclusion, it is clear that a government, by gradually shifting the proportion in which earnings are divided, can wipe out all foreign investments.

There are other types of government procedures that can result in what we have called creeping expropriation. It is not unheard of for governments to harass foreign-controlled enterprises by imposing fines, discriminatory taxes, and labor requirements. In other instances foreign-owned utilities have been denied the right to charge rates high enough to yield adequate returns. There are also cases where foreign enterprises have to compete with domestically owned firms that are not required to pay the same taxes or bear other burdens imposed on outside companies. The list of such devices is long, but enough has been said to indicate the wide range of techniques a government may use to nationalize foreign-owned businesses directly or indirectly.

Nationalism of the second type, which results in majority ownership of stock by domestic investors, can be illustrated by referring to conditions in Venezuela and Canada. Cabel, the abbreviated name of Industria Venezolana de Cables, a producer of cable, was established in 1957 by General Tire & Rubber Company and Ceat Cavi, S.P.A., a large Italian cable producer. The company is now the joint property of the original firms, plus British and Venezuelan interests. The firm reports that its most pressing problem is not markets or tariffs but a growing demand by Venezuelans for a greater share in ownership.[4] To the extent that Venezuelans obtain an ever larger ownership in foreign corporations, outside capital is liquidated and capital from abroad is restricted.

The situation in Canada is somewhat different but national pride is involved nonetheless. In 1956 the Canadian Parliament was asked to appropriate funds for the establishment of a crown company that would build a gas pipe line from Alberta to Ontario. A United States firm would provide the gas and operate the pipeline, but it would not build it. The issue became a political football, and debate was especially acrimonious. Thus one member of Parliament was led to remark, "I believe the domination of our economic life by these foreign corporations is threaten-

ing the independence of this country."[5] Under entirely different conditions, where emotionalism was not involved, the Minister of Trade and Commerce subsequently presented a similar idea. In speeches in Chicago and Milwaukee he expressed the opinion that Canadians resent their exclusion from shareholding and top-management positions in Canadian subsidiaries of United States corporations.[6]

Political and Social Movements

While it may seem trite to repeat that many nations of the world are experiencing social and political changes of great magnitude, it is essential to do so because these movements of the body politic directly affect foreign investments. In Latin America, in India, and in other countries there is a larger measure of government intervention in political, social, and economic affairs than prevails in the United States.

Since our interest is economic in nature, it is desirable to limit the discussion to this phase of the topic; even so, it is possible to indicate only the general outlines of the problems faced by American investors abroad. One of the movements in recent years that concerns foreign capital is the growing number of development corporations or single-industry enterprises established in various countries in Latin America and elsewhere. The economic development plans in India, for example, give private enterprise, including foreign interests, primary responsibility for promoting industry in general, and the government concentrates in the areas of agriculture, basic utilities, and certain essential industries. Much the same pattern prevails in many countries in Latin America. As a consequence foreign capital is channeled into particular areas of economic activity, but even so may be further restricted.

One of the most effective tools used to direct foreign capital into areas most desired by a country is the requirement that all foreign investments be screened. As a general proposition the government of India extends favorable terms of admission to those foreign enterprises which fall into the following categories: (1) those considered vital to economic development or welfare and involve large capital investments or advanced technological processes; (2) those that will result in further training of Indian businessmen, technicians, and labor in the operation of industry; and (3) those that will improve the nation's foreign exchange position. The Indian government, on the other hand, is reluctant to admit foreign capital where (1) the goods produced are not essential to economic development; and (2) the foreign enterprise will compete with domestic firms especially of the cottage type.[7]

In screening foreign investments many Latin American countries exclude entirely, or limit to minority stock interest, enterprises engaging in publishing, the operation of domestic airlines, and similar activities having a public interest. It is also a fairly general practice to screen very carefully foreign enterprises that may compete with established domestic firms.

The main observation to be made from this discussion is that foreign enterprises must ascertain well in advance the attitude of a nation's government to a proposed investment. It

cannot be assumed by any means that capital from abroad is universally welcome; there is a good chance that it may not be. And the smaller the firm, the more important is the initial investigation since funds may not be adequate to shift to other activities.[8]

Unattractive Economic Conditions

Growing nationalism and the social, political, and economic revolution which characterizes the present decade explain to a considerable degree the reluctance of United States capital to go abroad. There are other factors, however, which must be considered, even though they are diverse in nature and do not fit neatly into a single clearly identifiable category. Among these various factors the following seem to be mentioned most frequently by students of the subject: size of the market and lack of social capital facilities, inconvertibility, insecure legal status, discriminatory tax laws, foreign trade restrictions, employment regulations, and, finally, instability.[9]

The size of the market and the presence or absence of essential basic facilities, such as harbors, power, raw materials and so forth, influence directly the profit outlook of a proposed investment by an American firm abroad. Hence the smaller countries of Central America do not appear attractive to United States firms, since their populations are small and their national incomes low. It is largely because of this situation that the suggestion of a common market has been made as a way to enlarge the market and improve the profit potential of the area.[10]

The problem of inconvertibility of currencies has prevailed since the close of World War II and has only in recent months become less critical.[11] Currency inconvertibility has been an obstacle to foreign investors in two ways. In the first place, American enterprises abroad have been restricted in the amount of earnings and capital that could be repatriated since, in most instances, dollars could be bought only at the free market rate. As a consequence, earnings have been discounted appreciably and many firms have simply reinvested a major proportion of profits. Where exchange restrictions prevail, foreign firms have also found it particularly difficult to import needed machinery and supplies and this has been considered an even more serious obstacle than repatriation.[12]

A problem that is particularly difficult for small investors, and to some extent for the large American enterprisers who establish businesses in Latin America and many other parts of the world, is the legal structure that prevails. Anglo-Saxon law is not the basis of the legal system and, hence, foreign firms are compelled to operate under conditions quite different from those that prevail in the United States. Not only is the basic legal structure different but foreign firms may be subjected to rules and regulations that do not apply to domestic companies. Thus discriminatory tax and labor laws may be imposed which put the foreign firm at a competitive disadvantage. It is in this area, therefore, that treaties of Friendship, Commerce, and Economic Development, negotiated between our government and governments of other nations, can be helpful.[13]

Instability is reported by the United States Department of Commerce to be a major factor limiting private foreign investment.[14] The concept of instability is more or less nebulous and means

different things to different people, and a short-run solution is almost impossible. It may mean shaky governments, unstable economic conditions, changing population patterns and social structures and, in some instances, even the possibility that one country may take over another. The emergence of the United Arab Republic serves to illustrate this latter idea. In any event it means that investors are highly uncertain about future developments and are therefore reluctant to establish enterprises in certain areas of the world.

Before discussing possible approaches to overcoming, or at least mitigating, the severity of these obstacles and problems, it may be well to pose briefly difficulties confronting host nations. And what is to be said will refer particularly to the less developed countries.

INVESTMENT PROBLEMS OF FOREIGN NATIONS

Just as the obstacles faced by United States investors and enterprisers vary from nation to nation, so do the problems posed by these foreign interests differ among countries. Hence in the discussion that follows an effort will be made to suggest considerations involved that may not be readily apparent. This will be done under the following topics: nationalism and need, exhaustion of resources, balance of payments problems, and fluctuations in capital flows.

Nationalism and Need

The government of a country is faced with a real and difficult problem so far as nationalism is concerned. On the one hand, it must ask itself whether the welfare of the nation is advanced faster by reserving certain types of economic activity for government ownership and operation; whether foreign capital can do a better job; or whether some middle ground provides the best solution. There is also the question how far a government should go in satisfying national pride. Should it insist upon participation by its own businessmen in ownership and management of foreign enterprises? And, if so, at what cost in terms of discouraging outside capital and economic growth?

There are no easy answers to these questions. But, as we have already seen, governments do prohibit foreign capital in various types of industries and these are generally those vested with the public interest which may depend upon military as well as economic considerations. In other instances, foreign ownership and operation are permitted and perhaps encouraged, as in petroleum, but the government insists upon a major share of the earnings. The Venezuelan situation cited earlier indicates that this share may change with the passage of time.

The problem of acceding to national pride is more easily handled and can be helped a good deal by American firms themselves. This can be done, first of all, by entering into foreign undertakings on a partnership basis, which may well be to the advantage of an American firm. That this procedure is gaining acceptance here is reflected in a recent study which states: "In some countries it is almost essential to team up with a local company in a joint venture."[15] Not all United States firms are willing to follow such a procedure: General Motors, for example, insists

on operating through wholly-owned branches or subsidiaries.

Insistence upon participation in management by local businessmen is not only a recognition of national pride, but it is also a method whereby management techniques are imported. The W. R. Grace & Co. has gone a long way in sharing with home talent the management of its far-flung foreign enterprises. In reporting on its Peruvian operations the Company indicates that only 115 of its more than 2,000 administrative, office, and clerical employees are non-Peruvians and, of these, only 50 are from the United States. For all operations in Peru, Casa Grace's foreign employees constitute about one percent of total employment of over 11,000.[16] This is far below the maximum of 20 percent stipulated by Peruvian law.

Natural Resources

A nation possessing rich stores of natural resources such as soil, copper, and tin, or having soil and climate favorable to low-cost production of certain agricultural products attracts foreign capital. That this is so is amply attested by the heavy concentration of American investments in oil, minerals, sugar, and rubber production abroad. The attitude that a government takes toward these foreign investments influences, of course, how rapidly exploitation will occur. The reception given American capital seeking to develop oil and gas resources in Canada and Brazil serves to dramatize the extremes that can take place. In order to hasten and promote the development and use of its gas resources in Alberta, the Canadian government, as mentioned earlier, constructed a pipeline across the nation to Ontario where it can be used. The massive flow of United States capital into Canada for the purpose of developing oil and gas resources has met with opposition to be sure, but Canadians realize that their capital resources are not equal to the task and hence have swallowed their national pride in the cause of economic growth.[17]

Brazil's attitude toward exploitation of its oil resources by foreign capital is directly opposite from that of Canada. As early as 1938 petroleum deposits were nationalized and refining operations confined exclusively to Brazilian-controlled organizations. By 1951 the government was ready to take further action which resulted in the exclusion of direct private foreign capital and even limited the participation of domestic private funds in the industry.[18]

Balance of Payments Problems

The impact that foreign capital may have upon a nation's balance of payments and, hence, its supply of foreign exchange is extremely difficult to assess. It is popularly believed that a host nation should be certain that a sufficient volume of foreign capital will be invested in industries that result in exports large enough to earn the foreign exchange required for reimbursement of earnings and repatriation of capital.[19] A position quite different from this is that of Nurkse who argues that "the particular projects in which foreign investment takes place are naturally determined by the marginal productivity of capital."[20] What this argument means is that if capital goes into its most productive employments then the economy of the nation con-

cerned will expand and its exports will enter the world market. But they do not necessarily have to be produced by foreign enterprisers.

Whichever view is adopted, the fact remains that reimbursement of earnings and interest, as well as repatriation of capital, results in a demand for foreign exchange. The host nation must have an export balance if the demand is to be met. The problem is not so critical as one might suspect, however, because United States investors have in the past decade reinvested a major proportion of their earnings.[21]

Fluctuations in Capital Flows

A superficial study of the flow of United States direct investments abroad can well lead to the conclusion that there has been a massive movement of capital into foreign areas. Data show that American direct foreign investments have increased from a 1950 figure of $11,788 million to $25,252 million in 1957. This is, indeed, a significant growth, but if we investigate carefully the amount of new investment for each year, it becomes clear that violent fluctuations have taken place. Just how dramatic these changes have been are shown in the following table.

The unevenness in the flow of American foreign direct investments shown here on a global basis is startling, but the fluctuations are even greater for particular nations. Even without a country-by-country study, however, the point is perfectly clear: host nations cannot expect a steady flow of investment funds at a fairly constant rate. These wide changes from year to year have a direct impact on development programs, on national income, and on the balance of payments of the host nations.[22]

ANNUAL INCREASE IN U. S. DIRECT INVESTMENTS ABROAD, 1950-1957

(in millions of dollars)

Year	*Total Value*	*Increase over Previous Year*
1950	11,788	——
1951	13,089	1,301
1952	14,819	1,730
1953	16,286	1,467
1954	17,626	1,340
1955	19,313	1,687
1956	22,177	2,864
1957	25,252	3,075

Sources: *Balance of Payments*, Statistical Supplement, United States Department of Commerce, 1958, p. 152; and *Survey of Current Business*, September, 1958, p. 16.

CONCLUDING COMMENTS

The heavy concentration of United States foreign investment in the Western Hemisphere and Western Europe, particularly of the direct type, can be explained on relatively simple grounds, as can its emphasis on resource exploration and manufacturing. A survey of more than 300 United States firms in 1953 by the Department of Commerce indicated that the most important single factor influencing foreign investment is "the maintaining or extending of a potentially profitable market for, or source of supply of, products or services."[23] The deciding factor in any particular case, this study reports, may be the stage of development of such facilities as power, water, railroads, or the availability of skilled labor and technicians. Put in a slightly different way, Professor Harris suggests that in recent years private capital has gone abroad on the basis of

profitability, quick return on capital, and assurance of no serious problems of dollar convertibility rather than on considerations of need.[24] The conclusion seems inescapable, therefore, that the prevailing pattern of United States private foreign investments is the consequence of reasonable profitableness and a relatively favorable investment climate.

Is there not something our government can do to improve the investment climate in areas desperately in need of private capital? Many suggestions have been made and, indeed, specific action has been taken by the government. Thus it has been urged that United States tax regulations relating to income from foreign investments should be revised; that import barriers should be reduced; that protection of United States investments abroad should become a government policy; that further efforts should be made to promote currency convertibility; that present governmental guarantee insurance against expropriation should be revised; and that our antitrust laws should not be applied to allocating sales territories outside the United States.[25] However, in the opinion of a large number of United States businessmen, the real importance of such activities by our government was not considered great, according to the Department of Commerce survey cited above. The results of the study showed that "businessmen believed that the overall role of the United States Government in impeding or promoting private foreign investment was minor as compared with the role of foreign governments and with market and economic forces outside the realm of government."

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1. Two studies dealing with this topic are of special importance. *Factors Limiting U.S. Investments Abroad*, Parts I and II, U.S. Department of Commerce, 1953. This study is currently being revised. R. F. Mikesell, *Promoting United States Private Investment Abroad*, National Planning Association, 1957. In addition the U.S. Department of Commerce has published studies dealing with investment opportunities in specific countries, particularly India, Pakistan, and Latin America. For its part the National Planning Association has published studies dealing with business experience abroad of such firms as Firestone, Sears, Roebuck and Co., the United Fruit Company, W. R. Grace and Co., and several others.

2. *Factors Limiting U.S. Investments Abroad*, Part I, p. 5.

3. *Time*, February 2, 1959, p. 64.

4. *Business Week*, Special Report: Overseas Operations, January 3, 1959, p. 6.

5. Cited by Frank A. Knox, "United States Capital Investments in Canada," American Economic Review, *Papers and Proceedings*, May 1957, p. 597.

6. *Ibid.*, p. 599.

7. *Investments in India*, U.S. Department of Commerce, Washington, D.C., 1953, p. 2.

8. *Factors Limiting U.S. Investments Abroad*, Part I, p. 6.

9. For example see: *Factors Limiting U.S. Investments Abroad*, Part II, p .4; R. F. Mikesell, *Promoting United States Investments Abroad*, p. 34; E. R. Barlow and I. T. Wender, *Foreign Investment and Taxation* (Englewood Cliffs: Prentice-Hall, Inc., 1955), p. 132; and *Staff Papers*, Commission on Foreign Economic Policy (Randall Commission), 1954, p. 89.

10. *Foreign Economic Policy for the Twentieth Century* (Rockefeller Report III), (Garden City, New York: Doubleday & Company, Inc., 1958), p. 64.

11. The establishment of general convertibility of external accounts late in December 1958 by most Western European countries has eased the problem considerably.

12. Barlow and Wender, *op. cit.*, p. 133.

13. On this subject see: *Staff Papers*, Randall Commission, p. 94.

14. *Factors Limiting U.S. Investments* Abroad, Part II, p. 4.

15. *Business Week*, Special Report Overseas Operations, January 3, 1959, p. 5.

16. *The Case Study of Casa Grace in Peru* (Washington, D.C.: National Planning Association, 1954), p. 81.

17. On this point see: Frank A. Knox, *op. cit.*, p. 609.

18. *Factors Limiting U.S. Investments Abroad*, Part I, p. 16.

19. J. J. Polak, "Balance of Payments Problems of Countries Reconstructing with the Help of Foreign Loans," *Quarterly Journal of Economics*, 1943.

20. Ragnar Nurkse, *Problems of Capital Formation in Underdeveloped Countries* (New York: Oxford University Press, Inc., 1953), p. 136.

21. In 1957 undistributed earnings of American subsidiaries abroad amounted to $1,017 million. See, "Private Foreign Investments Near $37 Billion," *Survey of Current Business*, September, 1958, p. 19.

22. For a further discussion of this topic and possible solutions, see Seymour E. Harris, *International and Interregional Economics* (New York: McGraw-Hill Book Company, Inc., 1957), p. 417.

23. *Factors Limiting U.S. Investments Abroad*, Part II, 1953, p. 3.

24. Harris, *op. cit.*, p. 418.

25. See *Factors Limiting U. S. Investments Abroad*, Part II, 1953, p. 5; *Staff Papers* (Randall Commission), 1954, Chapter III, and Mikesell, *op. cit.*, Chapters V and VI.

IT DOES AND IT DOESN'T

The old question as to whether the Mississippi River runs uphill can be answered either yes or no. The answer depends on the definition of the "uphill," according to the Coast and Geodetic Survey, U. S. Department of Commerce.

Its rotation causes the earth (including the ocean) to bulge at the equator. The Mississippi's mouth is farther from the earth's center than its sources, and in this sense the river does run uphill. But elevation is measured from sea level at the same latitude, and in this sense the Mississippi's sources are higher than its mouth and it runs downhill.

O. K. BURRELL

Industrial Adaptation

Failing firms can choose among four courses of action. One unsuccessful automobile company found an ingenious way out of difficulties.

When a business enterprise, large or small, is outdistanced in the competitive race, there are only four things it can do. It can attempt to catch up by making necessary modifications in the product and in merchandising or other policies; it can be stubborn and go on losing money until its resources are completely exhausted, and it ends up in bankruptcy; it can liquidate the assets, pay off the creditors, and divide the remainder, if any, among the owners; or it can attempt to shift its resources into an entirely new and profitable line of business.

The least desirable of these alternatives is, of course, to be stubborn and end up in bankruptcy as a result of a refusal to recognize the necessity for adaptation to the changed competitive world. But even if the changed situation is recognized before bankruptcy becomes inevitable, the decision as to the proper course of action is a difficult one. Should the enterprise attempt to sharpen up the product, modify merchandising practices, and reduce costs; or should it undertake the difficult and perhaps impossible job of shifting resources to an entirely different, although perhaps related, line? The decision to simply liquidate is one that is rarely made since it is contrary to the interests of the management group and since liquidation of an unsuccessful enterprise would not normally be expected to yield very much.

Such a decision as this cannot be wisely and safely made on the basis of precedent alone. The fact that a particular decision worked badly or well for a particular enterprise at a particular time does not mean it will produce the same results for another enterprise at another time. Each enterprise is unique and timing is extremely important; any alternative would have proved to be less than sat-

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isfactory if undertaken in 1930. Nevertheless, examination of the efforts of unsuccessful companies to adapt to changed circumstances may be useful even though it is not possible to construct a formula with which to solve these difficult adaptation problems. After all, business decisions can rarely be solved by formula. Nevertheless study of decisions made by other enterprises can be useful at least as background material, especially when the varying attendant circumstances are taken into account.

CASE MATERIAL IN THE AUTOMOBILE INDUSTRY

Competition has really separated the men from the boys in the business of automobile making. Since the automobile industry was born about the turn of the century, more than two thousand makes of cars, from the ABC and the Abbott to the Zimmerman and the Zentmobile, have sought public favor.[1] Something over a hundred of these were steam cars and a lesser number were powered by electricity; by far the greater number were gasoline powered. Only a few survive.

The automobile manufacturers who have not survived did not run typically million - dollar enterprises. Most of them were simply promotions that didn't make the grade —a few cars were assembled, some may have been sold, but the car cost more than the public could be persuaded to pay. Entry into the automobile industry in its early years was not especially difficult. The market for automobiles was not as large as it is now, but it was an unsaturated market; moreover, capital requirements were low. In the early years of the industry, automobiles were not so much manufactured as they were assembled. The first Ford, for example, was almost entirely an assembly job: the engines, transmissions, and axles were purchased from the Dodge Brothers, the bodies and cushions from the Wilson Carriage Company, and the wheels from the Prudden Company.[2] The financial practices of the new industry kept the capital requirements down. There was a tremendous demand for cars; in return for exclusive territorial dealer rights, the producers were able to obtain substantial cash deposits on orders, and to receive full payment upon delivery. And liberal credit terms could be obtained from the well-established parts makers.

Most of the makers of these early cars went out of business in a very short time. In other cases the product caught on, and the company prospered for a decade or two. In many cases only a very few cars were produced by ambitious machine shop proprietors, and operations were suspended when it was found that the car had mechanical defects and could not be sold, or costs were too high to yield a profit. Even as late as 1923 a rather substantial number of automobile manufacturers were producing cars, but after this date the competitive struggle in the industry became more intense, making it difficult for the smaller units to survive as automobile manufacturers. For this reason most of the instances of attempted shifts out of the industry occurred in the period following 1923.

Automobile Manufacturing As a Sideline

In a surprising number of cases the transition from automobile manufacturing was made relatively easy by

the fact that car making was a sideline. It was only necessary to drop the sideline and concentrate on the main product. Today the automobile companies manufacture many other products and no one regards this as in any way peculiar. Probably few people remember that it was once the other way around: manufacturers of bicycles, wringers, wagons and buggies, sewing machines, farm implements, and railroad locomotives set up "automobile departments" and manufactured automobiles as a sideline business.

In some cases this venture soon became the main product rather than an incidental part of the business. The Winton (1898), the Pierce-Arrow (1901), and the Jeffery (which became the Nash; 1903) developed out of bicycle manufacturing enterprises; the bicycle lines were dropped as the automobiles became popular. The Willys Overland Co. began as a buggy manufacturing enterprise, but buggy making was soon forgotten after the company was rescued from financial difficulties by an early supersalesman by the name of John Willys. Measured by present standards, the rescue required no vast amount of money: Mr. Willys supplied $500 to meet a payroll.

Sewing machines and steam automobiles might not appear to be very closely related; nevertheless it was the White Sewing Machine Co. of Cleveland, Ohio, that developed the well-known White Steamer. In 1907 the White family decided that automobiles and sewing machines really didn't fit together very well and so the White Co. was organized to take over the "automobile department" of the sewing machine company.

The leading maker of railroad steam locomotives, the American Locomotive Co., manufactured and sold the Alco car, but it was powered by gasoline rather than steam. The car was massive as well as expensive ($7,250) and boasted a "Pullman" ventilator in the top which gave it some faint resemblance to a railroad passenger coach. The car had "illuminated steps" and the upholstery was said to be ten inches deep.

At least three farm implement manufacturers had a fling at the automobile business. The Moline Plow Co. manufactured the Stephens. The J. I. Case Co. of Racine, Wisconsin, made the Case. The International Harvester Co. manufactured, in its plant in Akron, Ohio, a so-called "auto-buggy" with high wheels and an air-cooled motor. This vehicle was apparently designed for the farm market and was made to appear as nearly like a horse-drawn buggy as possible. In none of these cases did the implement manufacturers succeed in the passenger-car business, although International Harvester has long been an important factor in the truck business.

How did it happen that in so many cases cars were manufactured as a side-line by concerns in other lines of business? In the first place in the early years of the industry very little specialized capital was required in automobile making. In the pre-assembly line days a car could be built in a good machine shop, especially if enough of the parts could be purchased from others. Many of the early car makers did little more than assemble parts purchased elsewhere; indeed the advertising of many of these early cars boasted of the excellence of these components. Prominently mentioned were

such essential parts as Bosch magnetos, Atwater Kent ignition systems, Driggs-Seabury frames, and Warner Gear Co. transmissions.

The farm implement makers as well as the carriage and wagon makers perhaps felt that they might have a potential advantage in the sale of automobiles through their established dealers. Perhaps the automobile might be just a welcome and profitable addition to the regular line of merchandise. While this may have appeared to be good reasoning, it certainly grossly underestimated the dynamic nature of the new industry. The automobile, as it turned out, was not just another line of merchandise for buggy dealers to sell.

Indeed it was not easy to appraise the future of the new automobile industry in the first decades of the century. This was an industrial revolution that is still impossible to measure. Periods of competitive stress forced manufacturers to take decisive steps of various natures in order to stay in business. While many firms, having taken on car manufacturing as a sideline, could withdraw from this field and concentrate on their original undertakings, other concerns in similar circumstances resorted to different means for remaining in the automotive field.

Attempts to Recover Market Position

It is understandable that an automobile manufacturing company which found itself at a competitive disadvantage would make vigorous efforts to recover its former position. Some of these attempts were successful; others seemed to be successful for a few years and in a few cases for a decade or two; in at least two instances, the shift appears to have been made with complete success. Most of the efforts involved a more or less radical shift in car design and construction. This too is understandable: a successful enterprise is not likely to make sudden radical changes in design, but an unsuccessful one has everything to gain by such an undertaking.

Those enterprises that persisted to the point of ultimate bankruptcy were usually the smaller units with little operating history that have left scant public record. But one larger company, the H. H. Franklin Manufacturing Company, of Syracuse, New York, makers of the well-remembered car with the air-cooled motor, elected to be stubborn. It produced a rather expensive but exceptionally fine car, and it kept on producing it in the face of persistently recurring operating losses. The company lost all the stockholders' money and most of the creditors' money as well: in the 1934 bankruptcy the general creditors received only slightly more than ten cents on the dollar for their claims.[3]

It will be remembered that Walter P. Chrysler was associated with two successful efforts to rejuvenate unsuccessful automobile manufacturing enterprises. In the earlier instance, Mr. Chrysler was employed, at what appeared at the time a fabulous salary, to undertake the reorganization of the Willys-Overland Company. His second effort was concerned with Maxwell Motors, which was eventually reconstituted and given the Chrysler name. In both cases it was apparently Mr. Chrysler's engineering genius that was responsible for the successful turn of events. In fact, in the case of Maxwell, there was a frank admission that previous models had been less than desirable. The new models introduced

after Mr. Chrysler was brought into the company were advertised as "The Good Maxwell."

The great importance of timing is to be seen in the relative experience of American Motors and the old Graham-Paige. In both cases the method adopted was to make striking changes in car design. (In the case of Graham-Paige a great deal of fresh capital was also a feature of its change period). The shift has been, apparently, highly successful in the case of American Motors with its new Rambler car; but the effort was entirely unsuccessful in the case of Graham-Paige. American Motors was lucky enough, or perhaps wise enough, to undertake extensive changes in a period of generally active business; Graham-Paige undertook its comparable changes just at the onset of a great depression.

The Tax Factor

The economic value of large accumulated losses to profit-making enterprises has permitted some automobile manufacturing concerns to retire from the industry without complete loss to stockholders in recent years of high corporate income taxes. When Kaiser Motors found it could no longer operate profitably in the automobile industry, the dominant interest in the company was able to combine the enterprise with certain profitable ones and recover the monetary value of the accumulated losses. In the case of Studebaker it is also the monetary value of the accumulated losses that has operated as a powerful stimulant to transition. In order for the value of these losses to be recovered it is necessary under present laws for the company with the losses to absorb profit-making enterprises.

Several automobile manufacturing enterprises have succeeded in varying degrees in shifting completely out of the automobile manufacturing field. Reo, for example, continued to make trucks for some years after the manufacture of the Reo Flying Cloud passenger car was discontinued. Eventually truck-making became unprofitable and for a time the company shifted to various metal specialties, including a power lawn mower. Then there was a period of litigation and indecision with the result that the company distributed to stockholders a liquidating dividend of $28 per share and then merged the corporate shell with an enterprise in the electronics business. The White Motor Company shifted out of the manufacture of the well-known White Steamer, but has continued to manufacture trucks successfully. Both Graham-Paige and Hupp are still operating, although not in the automobile business. But in none of these cases was the shift as successful and as astonishing as the shift of the Peerless Motor Car Corporation from automobile manufacturing to the brewing of beer. So unusual a chapter in the industrial history of this country is made up of the story of the Peerless enterprise that the account of the firm's change of direction is given here in considerable detail.

TRANSITION AT PEERLESS

For many years it was said that the three great cars in the United States were the three P's: Peerless, Packard, and Pierce Arrow. This was an oversimplification, but it was certain that the Peerless was a fine and dependable car. The first Peerless was built in Cleveland in 1900;[4] from the beginning

the company made no effort to turn out cheap cars for the mass market. The company was not beset by ambition—it was content to build and sell good cars, to maintain a comfortable financial position, and to let others slug it out for the mass market. The Peerless owner could feel confident that his car would not be depreciated by radical year-to-year changes; to own a Peerless was something of a mark of distinction.

But Peerless and the other small units in the industry found it more difficult to operate profitably after 1920. There were a few good years. Nineteen twenty-three was a good automobile year, even for the smaller companies in the industry, and Peerless made quite a satisfactory profit. Perhaps because of lessened competition from the Ford Motor Company, the year 1926 was a year of profitable operation for Peerless, as well as for most other units in the industry. But profitable as the 1920's were for business generally, it was not a boom period at Peerless. The new Ford Model A was introduced in 1927, and seemed to many people to set a new standard of value, and the Peerless Corporation, along with others in the industry, found it difficult to compete. By 1929 it was clear that something had to be done; the problem could not be solved by waiting.

New Financing

To provide sufficient working capital to expand operations, the management arranged for new financing in April 1930, obtaining about \$1,400,000[5] by offering new stock to stockholders. Each was permitted to buy, at \$8, one new share for each share held. There was, however, no rush to take advantage of the offer. Of the some 258,000 new shares offered, less than 170,000 were sold, and most were not taken by stockholders. About half of the issue was placed with nationally known investor-industrialists who had been favorably impressed with the Peerless prospects. These major investors were, of course, quite aware of the risks inherent in the enterprise; the management had disclosed all known conditions in the company and in the industry, but had expressed confidence that the affairs of the company could be conducted so as not to lose the additional capital brought in by the sale of stock. It was also indicated that, if the market expansion hoped for did not materialize, it would be the policy of the company to repay investors. It was recognized, however, that repayment to stockholders would have to be on a pro rata basis, and that it would be impossible to repay only new investors.

It is noteworthy that, in spite of worsening economic conditions generally and in the automobile industry in particular, the new economies in production and the general belt-tightening enabled the Peerless company to show a small profit for the year ending September 30, 1930. But the handwriting was on the wall. It became apparent that the economic depression would be of undeterminable duration and severity. Management formed the opinion that shareholder interests would not be served by expansion or even by continuation in the automotive industry. This is the kind of decision not often made by corporate management. The decision was not a forced one; when it was made, the working capital brought

in by the April 1930 financing had not been dissipated by operating losses and was largely intact. Moreover, it was a decision against the immediate personal interest of the management team, whose experience had been largely in the automotive industry.

From Fine Cars to Fine Beer

Once having determined that it was not feasible to continue in the automotive industry, the management gave some attention to possible alternatives. Should the Peerless Company liquidate the assets, pay off what debts it had, and divide the remainder among the stockholders? Or should it attempt to find some other line of business? Surprisingly, it was the conclusion of the Executive Committee that the best program for the company would be found in the production and distribution of a product which "cost less than ten cents and was either consumed or thrown away." After several months of investigation the directors concluded that the production of beverages would be the most suitable use of the company's resources. Since this decision was made shortly before the repeal of the Prohibition Amendment, it was inevitable that management should consider the production and sale of beer. A firm of architects and engineers specializing in the construction of breweries was employed to make a survey of the feasibility of converting all or part of the Cleveland plant to a brewery. This firm reported that in three or four months, at a cost of a little more than a half million dollars, a portion of the plant could be converted to a brewery with an annual capacity of 150,000 barrels, and that this could be increased to a capacity of 264,000 barrels merely by increasing storage space.[6]

Once it had been decided that the company would go into the production and distribution of beer as soon as this was legally possible, it was agreed that the capital raised in 1930 involved a rather special shareholder obligation. This capital had been raised on the representation that the company would continue in the automobile business and that, if expected opportunities in the industry did not materialize, it would be the policy of the company to return all or part of the additional capital advanced. But it was legally impossible to return capital to some stockholders and not to others. As a partial solution to this problem, the company, early in 1932, offered to purchase stock at \$3.50 per share; about 159,000 shares of treasury stock was thus acquired from stockholders. Later in 1932, the company paid a liquidating dividend of \$4.50 per share on the stock still outstanding. While the liquidating payment was less than the price at which the additional stock had been sold in 1930, the company actually returned, in stock purchase and liquidating dividend, an amount larger than had been received in the sale of stock in 1930.

Assets and Skills

The manufacture of Peerless cars was discontinued in 1931, and the company waited out the repeal of the Prohibition Amendment, which would permit the legal manufacture and distribution of beer. After the payment of the liquidating dividend and the purchase of treasury stock in 1932, the company's working capital was largely depleted; the principal asset was the well-located Cleveland plant site of

about twenty-two acres and buildings, mainly of modern steel and concrete construction, with a floor area of 658,000 square feet. Another asset, not recorded on the balance sheet, was a fierce desire to survive. The corporate belt was tightened, and during the transition period costs were drastically reduced. The salary of the president was fixed at "not more than" $10,000 and other salaries scaled down from this figure.

The skills required in making automobiles are, of course, not the same as those required in making beer and ale; a skilled machinist cannot easily be converted into a brewmaster. Moreover, the selling of beer and ale presents fundamentally different problems and requires different skills. It was clear that Peerless had to have help—both money and technical know-how.

After extended search an arrangement was worked out with the Brewing Corporation of Canada, now known as Canadian Brewers, Ltd., makers of the well-known Carling's Black Label Beer and Carling's Red Cap Ale. The Peerless Company issued 25,000 shares of its nearly worthless stock to the Canadian company for the exclusive rights to its brands, copyrights, and labels, and also for the exclusive sales agency for Carling products in the United States.[7] In addition, in order to replenish working capital, the Cleveland company sold some 178,000 shares of treasury stock at $3 per share.

The Conversion Process

With the money from the stock sale, the complicated business of turning an automobile factory into a brewery began. Prices and costs were not high, but nevertheless the conversion cost a bit more than expected, so it was not long before still more working capital was needed. In October 1933, while the conversion was still in progress, the company attempted to sell more stock. This effort must be labeled as a failure. The stock was offered to stockholders at $5 per share, in the ratio of one new share for each five shares held; if all stockholders had purchased stock to which they were entitled a total of 92,348 shares would have been sold. The actual sale amounted to only 20,277 shares. Because of the failure of this financing and because the plant conversion cost more than expected, the suppliers of some of the brewery equipment were unable to collect immediately and had a prolonged and anxious wait,[8] but in spite of these difficulties, the conversion was finally completed. The Canadian company sent a brewmaster and a cadre of skilled workmen to Cleveland to train the employees of the Peerless Company in the new art.

Everyone knows, of course, that no business organization called the Peerless Motor Car Corporation is in the beer business. It would look a bit silly for an automobile company to advertise beer and ale. But the only reason a company called the Peerless Motor Car Corporation is not advertising beer and ale is that the Cleveland company found it desirable to change the corporate name several times. The corporate name was first changed to the Peerless Company about the time that the manufacture of automobiles was discontinued. Even the proud old name, Peerless, was eliminated in 1933, and the company became the Brewing Corporation of America; later the present name, the Carling Brewing Company, was adopted.

After the new enterprise became profitable, the Canadian company began to buy up the stock of the Cleveland company; gradually, over a period of years, Canadian Brewers increased its proportion of ownership. By 1946 its ownership was 71 per cent of the total; this had increased only to 78 per cent by 1951, when the Canadian company made a formal offer to the remaining stockholders of the Cleveland company to exchange two shares of Canadian Brewers for each share of the Cleveland company. As a result of this offer and further purchases the proportion of ownership by Canadian Brewers is now more than 98 per cent.[9] This buying resulted in sale prices that were highly satisfactory to Peerless stockholders.

Hey, Mable!

In these days, industrial diversification is almost a fad. Railroads have gone into the trucking and pipeline businesses; copper mining enterprises have taken up uranium, oil, and metal fabrication; coal mining companies have shifted to machine tools. But such industrial diversification was uncommon until fairly recent years. Perhaps the Peerless experience helped to point the way.

In the process, the fine old name Peerless was lost. The spirit of the company may also have undergone some changes in the shift to the new line. The advertising of the Peerless car was very restrained and sedate. It was sometimes called "the car for aesthetes;" usually the advertising carried a picture of a black Peerless that seemed to exude quiet respectability; under the name Peerless appeared the phrase "all that the name implies." All this is certainly in contrast to the advertising program of the beer-making corporate successor to the Peerless Motor Car Corporation. A typical ad shows a genial shirt-sleeved man, who has evidently just returned from the grocery, holding up a bottle of beer and shouting to his wife, "Hey Mable! Black Label." All advertising, however, is less sedate than it was in the heyday of the Peerless car. If the Peerless Motor Car Corporation were still selling cars, it is certain that not all of them would be painted black, and that the styling would be more streamlined than the 1928 model. It is equally certain that the advertising would not be dull and restrained and factual, but colorful, entertaining, and perhaps a bit loud. After all, the world has changed.

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1. From the list of automobiles once manufactured in the United States included in *A Chronicle of the Automobile Industry in America, 1892-1936*, published for private circulation by the Eaton Manufacturing Co.

2. *Combustion on Wheels*, by David L. Cohn (New York, 1944).

3. *Commercial & Financial Chronicle*, February 16, 1935.

4. Annual reports of the company; various volumes of *Moody's*.

5. Facsimile of the statement to the Committee on Stock List of the New York Stock Exchange in connection with the stock offering; also report of the Wall Street Survey, a financial news service.

6. *Commercial & Financial Chronicle*, July 1, 1933.

7. *Ibid.*, October 14, 1933.

8. Letter of Mr. A. W. Fritzsche, son of a former director.

9. The several exchange and purchase offers by Canadian Brewers were traced through various issues of the *Commercial & Financial Chronicle* and *Moody's*.

Library in a Universal Tongue

Language that is clear to one make or model of electronic computer is Greek to another. As state highway departments and consulting engineers use a dozen different types of computers, the Bureau of Public Roads, U. S. Department of Commerce, has devised a "universal language" in which engineers can talk to any of them.

In cooperation with state officials and roadbuilders, the Bureau has established a unique library. Each book in it is a primer on the solution of a particular problem and comprises a program of instruction for a computer. One volume, say, embodies the results of months of work put in by a highway engineer in Illinois to direct a machine in calculating the quantities of earth that must be moved to build a certain strip of roadway.

Another engineer tackling a similar problem in another state gets a copy of the translated program, codes the instructions for the computer in his office, adds the dimensions and other particulars concerning his own job, and lets the computer do the routine figuring.

The Bureau of Public Roads estimates that on the average the library system saves two-thirds of the engineer's time in preparing instructions for a machine solution. The computer does the calculations on the average in about one one-hundredth of the time needed by an engineer with a simple desk calculator.

The book titles would not intrigue browsing readers if they were put on the shelves of a village library, but they mean a lot to the highway engineer. "Preparation of Data for a Trip Desire Contour Chart," for instance, refers to the determination of the intensity of people's desires to go certain places. And "Skewed Bridge Geometry" concerns the dimensions of bridges that cross a stream or road at other than a right angle.

The library was established by Federal Highway Administrator Bertram D. Tallamy to avoid duplication of effort in the Federal-state highway program. Those who contribute the books and those who use them are largely the same: highway departments, consulting engineers, educational institutions, and other Federal agencies. So far, 180 programs have been acquired. When received, they include abbreviations and symbols that work in one kind of machine but not in others. Engineers of the Bureau of Public Roads have put sixteen programs into the plain English and figures of the "universal language" and other translations are under way.

Nearly half of the 180 programs are in highway location and design, a third in structural operations (such as bridge design), and the others in traffic and miscellaneous subjects.

The time-saving is particularly great in the studies that cities are undertaking to forecast traffic conditions for future years. Programs now being prepared by the Bureau of Public Roads are expected to make calculations possible in thirty hours that would take thirty years by the old hand methods.

STANLEY C. HOLLANDER

RETAIL RESEARCH

What is the nature of research in this complex field of distribution?

Both merchants and professors of merchandising constantly complain that retail trade is one of the most under-researched areas of the economy. Yet in many ways retailing should be a natural field for research and analysis. It certainly is sufficiently important, by almost any reasonable criterion, to warrant exhaustive study. Approximately 1.8 million retail firms in this country employ the equivalent of about 8 million full-time workers.[1]

Moreover, many aspects of retailing can help the researcher, whether he is a merchant studying his own business or a university analyst examining an entire branch of trade. Most retailers deal with large numbers of customers and commodities and many merchants also have to deal with considerable numbers of suppliers and employees. Thus there is a firm base for statistical analysis. Many of the variations in retail activity are fairly regular and can be related to factors, such as seasonal patterns, that are relatively easy to discern and to measure. Many of the phenomena in which retailers are interested, for example, transactions, have a discrete and objective nature that facilitates counting and analysis. Chain organizations can shift experiments from place to place, thereby eliminating many types of locational biases from their analyses. Independent stores do not have the same advantage, but in at least some cases they can arrange to exchange figures and information with similar stores at non-competitive locations. A merchant can often obtain the raw data for fruitful studies from his own records, while the range, variety, and ubiquity of retail stores provides a perfect laboratory for the outside analyst.

Yet we keep hearing that retailers seem to have an aversion to research. A recent marketing research textbook, for example, says:

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It was pointed out above that retailers *can* use marketing research, just as manufacturers can. That does not mean that retailers *do* use marketing research on a very large scale. Marketing research by retailers has been quite retarded, especially when compared with the progress which has been made among manufacturing organizations. While marketing research could make many contributions to increased management effectiveness in the retail field, it has so far had relatively little opportunity to demonstrate that fact.[2]

Recent experiences in putting together a set of readings on retail research and theory, to be published this spring by the Bureau of Business and Economic Research under the title *Explorations in Retailing,* have suggested three comments on this constantly iterated theme: (1) Many retailers do believe, rightly or wrongly, that their problems cannot be solved profitably through the use of available research methods. (2) Many retailers do a considerable amount of research, but they call it something else. (3) Some extremely interesting research is under way, and is being used by progressive retailers throughout the country.

The Limitations

First let us look at the actual and the imagined limitations on research in retailing. Completely satisfactory research techniques have not yet been developed for dealing with some extremely important problems such as: how do customers select the stores in which they shop? what are the exact effects of retail advertisements? how do price changes influence sales? Since only a small portion of the average retailer's economic interest is invested in any one customer, any one commodity, or any one employee, research, to be profitable, must produce answers that are general, or capable of being generalized to cover a wide range of items and situations. A hardware retailer, for example, cannot spend much time or money studying how to increase sales of a particular size or type of hammer. In spite of the rise of chains, department stores, and mail order houses, about seventy percent of all retail sales in this country are made by relatively small retailers. Small retailers can do many things to study and improve their businesses. However, as individuals, they cannot afford to commit their resources to many of the experiments and studies larger organizations easily undertake. Trade associations, retail chambers of commerce, suppliers, and other institutions that unite the interests of many small retailers can provide a partial (but only a partial) answer to this problem. Finally, many retailers believe that the very nature of their business provides an intimate contact with the market and obviates the need for many types of research. This is likely to be a delusion, since there is always a tendency to give undue weight to the opinions and purchases of exceptional and outspoken customers and friends, and to overlook the more significant group of typical customers. Moreover, even the most perceptive retailer usually loses contact with those individuals in his market who do not patronize his store, even though these may be the people he should study most intensively.

EVERYDAY RESEARCH ACTIVITIES

The second comment is reminiscent of the story of the man who did not learn until middle age that he had been speaking prose all of his life. If we define business research as systematic

attempts to gather and analyze the facts that are relevant to particular business problems so as to derive solutions to these problems, we must place the label *research* on many of the activities retailers call *stock control, cost accounting,* etc.

Some of the most interesting recent developments, at least from the viewpoint of the large stores, have been in this area of retail control techniques. Three important innovations, Expense Center Accounting, Production Unit Accounting, and Merchandise Management Accounting, can be credited to the joint efforts of Professor M. P. McNair of Harvard, The National Retail Merchants' Association, and, in the case of the last technique, the accounting firm of Arthur Anderson & Co. Expense Center Accounting is a system for analyzing operating costs in terms of retail functions (e.g. advertising and delivery) that can be assigned at least partially to individual executives. Thus the system attempts to measure what it costs to do a particular portion of the store's work and to determine the dollar performance of the executive in charge of that portion. It is a modification of the so-called *functional* classification system used for many years by large department stores and is a distinct improvement over the more rudimentary *natural* system of accounts (wages, rents, supplies, etc.)

Production Unit Accounting is an additional technique for the study of activities having a measurable basis in physical activity. This system collects the dollar and man-hour costs per hundred or thousand units of preparing charge statements, of cleaning square feet of floor space, and so on. The resultant figures are useful primarily for comparisons between stores or between time periods.[3]

Merchandise Management Accounting, on the other hand, is really an approach to setting prices rather than an accounting technique *per se.* Under this system a buyer uses a chart of the variable costs associated with handling a given merchandise item in his department to determine profitable markup-price-volume combinations. Two drawbacks are the difficulty of determining item handling costs in a business where so many costs are common to an entire department or enterprise, and the dangers of emphasizing cost considerations rather than market demand in setting prices. Nevertheless, many keen students of merchandising believe that this method, which emphasizes dollar profits rather than percentage margins, will enable department stores to compete more effectively with discount houses in the sale of "big-ticket" merchandise.[4]

These techniques and other, often simpler, systems of uniform accounting classification permit and encourage an extremely significant type of retail research: the collection of industry-wide operating statistics such as are available for department, hardware, jewelry, footwear, variety and many other types of stores. No two stores, even in the same business, are exactly alike in stocks carried, customers served, location, and management policies. Since the central office (whether it is a trade association, a trade magazine, a university research bureau, or a supplier) has to add together and average out reports from several hundred or thousand more or less dissimilar stores, the result has to be a somewhat unrealistic abstraction. A merchant can always shrug off an unfavorable comparison be-

tween his store and the reported industry average on the grounds that "his business is different." Undoubtedly many of these studies could be improved by more detailed classifications and by indication of the range of figures reported. Nevertheless, they have rendered yeoman service in indicating the relationship between turnover and profits, in highlighting the importance of emphasizing profitable lines, and in providing rough guides for retail operations.[5]

Collection and analysis of these industry-wide figures requires concentration upon key items, such as average store-wide and departmental margin, turnover, and expense rates. Additional insights can be gained from detailed, intensive study of all the transactions taking place and/or all the expenses incurred in a single store or group of stores over a period of time. Two such studies, one for drug stores and one for supermarkets, have recently become available.[6] Both emphasize the differences in dollar profit contributions of different items and departments. While a wide and varied stock is usually required to attract trade, studies such as these suggest that shrewd merchants will concentrate space and attention upon the products and departments of greatest dollar (not necessarily percentage) profit potential.

RESEARCH AS SUCH

Space limitations do not permit a detailed report on the third comment, the varieties of retail research (labeled as such) completed and under way. Only some general impressions can be noted.

Some forms of marketing research are used quite widely, particularly by department stores, chain organizations, and developers of shopping centers. (It must be admitted, however, that even these large retailers do not seem to use market research as much as do consumer goods manufacturers of comparable size.) Trading area studies to determine *where* actual or potential customers live are quite common, and many reasonably satisfactory techniques have been developed for such studies. Attempts to develop theories of the gravitational forces exerted by shopping centers of various sizes, and analysis of such data as delivery addresses, residences of charge customers, and registrations of parked automobiles, as well as direct questioning of shoppers, have all furnished useful insights into questions of customer flow.[7]

Store Personality

Retailers seem to have displayed somewhat less interest in learning *who* their customers are in terms of other demographic characteristics, such as age, occupation, stage in family life cycle, and social class. This inattention is especially unfortunate since such facts could shed considerable light on the question of *why* customers select particular stores instead of competitive ones. Direct interrogation of shoppers is as likely to elicit polite rationalizations as to discover true patronage motives. (Those interviewed may not be aware of their own motives, they may hope to give the interviewer an exaggerated picture of their shopping skill or their financial status, and they may even be mistaken as to where they concentrate their purchases.) Consequently some retail researchers have turned recently to depth interviews, projective

techniques and other motivation research methods for a clearer picture of customer attitudes.

Such research has suggested that each store has its own "personality" that draws particular groups of customers, usually from clearly defined socio-economic segments. According to this point of view, the consumer mainly seeks a store atmosphere in which he or she will feel comfortable and at home. These psychological studies indicate that the junior executive and the blue collar technician receiving comparable incomes will spend their dollars in very different stores. On the other hand, the highly rational reactions of consumers to price, locational, and merchandise advantages seem to contradict the motivational studies. This rationality has been observed both in simulated shopping behavior, through the use of ingenious shopping games, and in actual practice, through analysis of purchase records. Apparently, for many consumers, shopping is simply operational behavior, simply a means of acquiring wanted items. Apparently also many large retailers do draw their customers from widely divergent income and social groups.[8] Perhaps the most interesting demonstration of this has been the experience of Sears, Roebuck de Mexico, S. A. Originally expecting to find its customers among the Mexican elite, this amazingly successful Sears' subsidiary has learned that its market includes almost every citizen with a few pesos of discretionary spending power.[9]

Merchandise

Generally retailers rely upon intuition, experience, stock control records, and (to a limited extent) customer requests for guidance as to *what* the market wants in the way of merchandise. It is usually cheaper, faster, and more practical to try out new items on a quasi-experimental basis than to conduct market studies. Major revisions and expansions of merchandise offerings (such as putting clothing in a supermarket or foods in a discount house) may occasionally call for formal studies, but such cases are the exceptions rather than the rule. Even though the widening role of fashion in the sale of consumer goods ranging from women's clothes through fountain pens to pleasure boats is widely recognized, the merchandising of fashion items is still considered mainly a matter of flair. Formal theories of fashion seem grossly inadequate to explain or predict style changes. The popular concept of fashion dictation by an elite consisting of Parisian designers and/or an American "400", with consequent trickling-down of the decrees to lesser mortals is contradicted by two factors: many of the elite's decrees simply fail to trickle down and even leading Parisian designers face bankruptcy troubles from time to time; other fashions, such as blue-jeans for teen-agers and T-shirts for men seem to seep up the ladder rather than trickle down. Recently social scientists have become intensely interested in the general question of consumer reactions to innovation, and research on how farmers come to accept new varieties of seed corn and how housewives learn of new food items promises future light on the strange processes of fashion.[10]

Services

What consumers want in the way of services, particularly in terms of store hours, is harder to measure through

conventional sales records than are merchandise selections. Consequently somewhat more formal research has been done in this area. A few pathfinding attempts have used mathematical models and operations research techniques to measure the impact of night openings, and undoubtedly more will follow. Somewhat similar approaches may prove helpful in inventory control and in measuring retail advertising results, other areas in need of more detailed study.[11] Competitive pressures and rising costs have forced some retailers, particularly in the department store field, to less sophisticated and riskier experiments in service curtailment. The results suggest that at least some reduction in traditional service packages may prove acceptable to customers, especially if accompanied by appropriate price reductions.

Pricing

Pricing decisions, like merchandising decisions, are usually judgment matters, supplemented by some rough trial and error adjustments. One leading department store experimented a number of years ago with elaborate attempts to construct mathematical demand curves for staple housewares items, but found the results did not warrant the time and energy involved. The relatively small number of economists who have been interested in retail pricing have drawn differing conclusions (a not unusual result among economists), depending in part upon the particular situations they have examined. However, several general conclusions may be noted: (A) Price adjustment and manipulation are significant aspects of retail operations and retailers do not simply add automatic margins to costs, as some theories assume. (B) Although we hear much about the irrational and foolish consumers who prefer to pay high prices for inferior merchandise, consumers generally seem responsive to price savings when there is reasonable opportunity to compare values. Many consumers do, of course, exhibit a preference for nonmonetary inducements such as trading stamps. (C) In the absence of government control, retail pricing is neither as competitive as some in the industry would claim, nor as monopolistic as some theories hold. (D) Judged by economic criteria, large retail institutions have tended to benefit the consumer, although the degree of countervailance these institutions have displayed against the price decisions of large manufacturers is not as great as is sometimes claimed.[12]

Personnel

Labor, labor relations, and labor productivity in retailing have been the subject of much discussion and little research. The best estimate we have, the result of a very exhaustive study, is that productivity in wholesale and retail distribution rose only at a 1.0 percent annual rate from 1869 to 1949, compared with annual increases of 1.9, 2.6, and 2.3 percent for agriculture, mining and manufacturing respectively.[13] Both merchants and shoppers freely pronounce opinions on what is wrong with retail salespeople, but knowledge of solutions to retail personnel problems has increased only slightly. Many merchants have found a profitable way to eliminate some of the problems through self-selection and self-service, thereby substituting customer labor for employee labor. Experiments with psychological testing, various types of training programs, improved compensation plans, and revised organizational patterns for

employee supervision have indicated partial answers to some personnel problems, but much remains to be done.[14]

One very detailed study of the behavior of salespeople and supervisors in the infants' and children's department of a large department store has provided some interesting insights into retail labor problems, although it furnishes few direct recommendations for action. This study showed how the salespeople looked to the job for satisfaction of emotional needs not recognized by management, developed concepts of status and position, and eventually came to consider portions of sales departments as individual sovereignties into which other clerks should not intrude.[15]

Without recommending the same degree of emotional attachment as discovered by that study, one may hope that in the future increasing numbers of researchers will become equally fascinated by retailing. The size, complexity, and importance of retail distribution in our economy warrant such attention.

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[1]Harold Barger, *Distribution's Place in the American Economy since 1869* (Princeton: Princeton University Press, 1955.)

[2]Richard D. Crisp, *Marketing Research* (New York: McGraw-Hill Book Company, 1958), p. 702.

[3]Both Expense Center Accounting and Production Unit Accounting are described in detail in the *Standard Expense Center Accounting Manual* (New York: National Retail Dry Goods Association, now National Retail Merchants' Association, 1954.)

[4]Although Merchandise Management Accounting has been described in many places, one of the most illuminating discussions is that found in the special M. M. A. issue (Summer, 1958) of the *Journal of Retailing* published by the New York University School of Retailing.

[5]Some of the more important series are the annual surveys of department, variety chain and grocery chain stores published by the Harvard University Graduate School of Business Administration, *M. O. R.* (Merchandising and Operating Results) published by th Controllers' Congress of the National Retail Merchants' Association, the *Lilly Digest of Drug Store Operations* published by Eli Lilly & Company, the *Footwear News* annual survey of independent family shoe stores, Progressive Grocers' annual *Facts in Grocery Distribution, The Super Market Speaks* (a report of the Super Market Institute), and the National Retail Furniture Association's *Furniture Store Operating Experiences.*

[6]*The Super-Valu Study* (New York: Progressive Grocer, 1958) and Orin E. Burley, Albert A. Fisher, Jr. and Robert Cox, *Drug Store Operating Costs and Profits* (New York: McGraw-Hill Book Company, 1956.)

[7]Robert J. Holloway, "Surveys of Retail Shopping," *Harvard Business Review*, March-April 1955.

[8]The motivational research approach to retailing is exemplified by Pierre Martineau, "A Store is More than a Store," in his *Motivation in Advertising* (New York: McGraw-Hill Book Company, 1957) and Joseph H. Newman, "New Insights, New Progress, for Marketing," *Harvard Business Review*, November-December 1957. For some comments, see S. C. Hollander, "The American Retailer — Subservient to the Public?" *Journal of Retailing*, Fall 1958.

[9]Richardson Wood and Virginia Keyser, *Sears, Roebuck* de Mexico, S. A. (Washington: National Planning Association, 1953).

[10]Rolf Meyerson and Elihu Katz, "Notes on a Natural History of Fads," *American Journal of Sociology*, May 1957, reprinted in Eugene Kelley and William Lazer, edit., *Managerial Marketing: Viewpoints and Perspectives* (Homewood, Ill.: Richard D. Irwin, 1958); Francis S. Bourne, "Group Influence in Marketing and Public Relations," in Rensis Likert and Samuel P. Hayes, edit., *Some Applications of Behavioural Research* (Paris: Unesco, 1957); Robert C. Brook, Jr., " 'Word-of-Mouth' Advertising in Selling New Products," *Journal of Marketing*, October 1957; Alfred H. Daniels, "Fashion Merchandising," *Harvard Business Review*, May 1951.

[11]Horace C. Levinson, "Experiences in Commercial Operations Research," and Seymour T. R. Apt, "Opportunities for Operations Research in Supermarkets," in Joseph F. McCloskey and Florence N. Trefethen, *Operations Research for Management* (Baltimore: The Johns Hopkins Press, 1954); John F. Magee, "An Operations Research Program for a Retail Store Chain," *Advanced Management*, June, 1955; T. M. Whitin, "Inventory Control Re-

search: A Survey," *Management Science*, October 1954.

[12]See S. C. Hollander, "Retail Price Policies," (Occasional Paper #1, Bureau of Business and Economic Research, Michigan State University) for a more extensive discussion of price research in retailing.

[13]Barger, *op. cit.*, p. 52.

[14]William R. Spriegel and Joseph W. Towle, *Retail Personnel Management* (New York: McGraw-Hill Book Company, 1951); Helen Baker and Robert M. France, *Personnel Administration and Labor Relations in Department Stores* (Princeton: Industrial Relations Section, Princeton University, 1950.)

[15]George F. F. Lombard, *Behavior in a Selling Group* (Boston: Harvard University Graduate School of Business Administration, 1955.)

The rare individual who has learned to govern himself is too fed up with the labor of it to want to govern anybody else.

Henry S. Haskins

An expert is a man who is able to avoid all minor mistakes as he sweeps on to the grand fallacy.

Roger M. Blough

Common sense has been defined by scientists as that faculty which tells us that the world is flat.

Pierre Martineau

KENNETH O. ALEXANDER

Collective Bargaining in the Auto Industry

Review of experiences since World War II, and consideration of the implications for the future

To discuss either the past or the future of a complex subject such as collective bargaining presents many difficulties. It is obvious enough that the role of prognosticator is a dangerous one, but even the chronicler is faced with an involved task. The first step is to choose a starting-point for discussion. Even this is not easy, but a convenient one can well be the end of World War II, even though we thus lose the union organizing drive in the later 1930's, and also the period of wartime regulation. The choice of this date offers definite advantages: it is in the period since the war that union-management relationships and collective bargaining have evolved in an atmosphere free from the heat of the union's fight for existence and from major governmental intervention in the bargaining process.

STAGES OF THE BATTLE

Our purpose here is not an intensive discussion of any specific contract negotiations, but rather a general picture of significant events over a period of time. It will be sufficient to touch on the highlights: to discuss chronologically the bargaining goals of union and management, strike dates, strike issues and major terms of settlements.

Preliminary Sparring

The general problems facing organized labor in 1945 were reconversion unemployment, fewer working hours, downgrading and the lower earnings resulting from all of these. They were reflected in the various proposals put to the government by Walter Reuther in that year, including plans to hasten re-

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tooling for civilian production, and to establish public authorities for the operation and lease of government-owned plants to manufacture railroad cars and prefabricated houses. He also filed a brief with various government officials in which he asserted that wages could be increased without raising prices. He argued that industry should pay higher wages out of profits because "American industry now has reserves equal to 15 years of normal pre-war profits."[1]

Reduced earnings and the profit levels of the auto companies were major arguments for the UAW's initial demand for a 30 percent wage increase from GM. But this was not an inflexible demand. Reuther, as head of the UAW's General Motors Department, said the union would accept less "provided the GM Corporation could produce facts to prove that it could not grant the 30 percent increase and still maintain the present prices and operate under a fair profit."[2] He further asserted, "Not only can GM pay the 30 percent increase in wages without increase in prices, it also can cut at least $100 from the price of Chevrolets f.o.b. Detroit."[3]

To the 30 percent demand, General Motors' answer was an unqualified no. The demand was regarded as inflationary—prices and profits were *not* matters for collective bargaining — these were subject solely to management discretion and were properly none of the union's business. To compensate for decreased weekly earnings, General Motors proposed adoption of a 45-hour week with a 6 percent increase in wage rates. The UAW was asked to join the corporation in asking Congress to amend the Wage and Hour Act so that time and one-half need not be paid for the time worked over 40 hours. This was bitterly rejected by the UAW. The proposal of a longer work week was particularly unpalatable to the union, with many of its members laid off in a situation of substantial unemployment, much of it due to reconversion. On October 24 the union conducted a strike vote. 84.6 percent of the 83,655 voters cast their ballots for a strike.

Round One

With the parties far apart on the basic question of the proper subject matter for collective bargaining, the UAW struck at all GM plants on November 21.[4] Subsequently President Truman appointed a three-man fact-finding panel to examine the dispute.[5] The UAW maintained that ability to pay was properly a factor in any decision of the panel, while GM held it was not and threatened to withdraw if it were considered. President Truman entered this dispute over the scope of investigation and said the board should have the power to examine corporate books and determine ability to pay. Shortly afterward GM withdrew; the UAW remained and later presented its written arguments to the panel. The panel's recommendation was a 17½ percent raise at GM, amounting to 19½ cents, with the recognition that the corporation could seek price relief from OPA if it saw fit. The union accepted this and scaled its 30 percent demand down to the 19½ cents. GM, however, did not move from an earlier offer of 13½ cents.[6]

An important precedent for auto bargaining came early in January of 1946, when President Truman proposed 18½ cents as the basis for settlement in steel. Before the month was out, the UAW had settled for this figure at Chrysler, for 18 cents at Ford, and had

made settlements with some smaller companies in the Detroit area at this level. General Motors offered 18½ cents to the UAW and settled at this figure with the United Electrical, Radio and Machine Workers— CIO.[7] However, the offer was made with a number of conditions, including the elimination of all clauses in the contract inserted by War Labor Board directive. The UAW bitterly rejected this as an attempt to destroy seniority rules on transfers and promotions, to eliminate maintenance of membership and to destroy other union gains so that the contract would be essentially that of 1940. In rejecting the offer, it reiterated its demand for the 19½ cents recommendation of the federal fact-finding panel.

The strike dragged on and passed the one-hundred day mark. But by March the price and ability to pay issues were no longer of importance in the bargaining.[8] The parties drew closer together on the non-wage items and on March 13 a settlement was reached. The maintenance of membership issue was resolved by a provision for irrevocable dues check-off after an initial escape period. Improved vacation and overtime provisions and "removal of inequities" were cited by the union as more than equivalent to the 1 cent difference between the negotiated general increase of 18½ cents and the union's 19½ cents demand. The strike had lasted a total of 113 days.

Round Two

So much for the first round. Throughout the summer of 1946 the UAW repeatedly expressed concern over the trend of rising prices and resulting lower real wages. In December, the union's Executive Board set forth 23½ cents as the wage goal for 1947. This announcement was made shortly after publication of the Nathan Report,[9] which held that manufacturing corporations could raise wages 21 percent during 1947 without increasing prices and without reducing the corporate rate of return on net worth to a level below the 1936-39 average of 6.9 percent. Chrysler was formally served with the 23½ cents demand in January of 1947. In addition, the UAW asked for a dues check-off and company-financed insurance and pension plans. The union's Research Department had prepared a brief, projecting costs, output, prices and profits of the auto industry for 1947. Disagreement over statistics and assumptions took much the same form as it had over the still-warm Nathan Report.

The ice was broken when General Motors reached an agreement with the UE in April, only a few days after the UAW had opened negotiation with demands that included the 23½ cents, a guaranteed work week and a retirement and insurance program. The settlement's major provisions were 11½ cents plus six paid holidays, with the latter's cost computed at more than 3 cents per hour. Previously, in mid-March, the Rubber Workers had signed at 11 cents with the major tire companies, but with a reopener after 120 days. The UE-GM agreement was for a year with no wage reopeners, and strengthened the 11-11½ cents precedent for settlement. The UE's initial demands, furthermore, were similar to those of the UAW. The pattern was reinforced in April when United States Steel and the Steelworkers also settled for a total 15 cents increase, with 12½ cents taken in wages and the remainder accounted for by elimination of job

"inequities," granting of severance pay for technological job losses, and improved vacation pay schedules.

General Motors offered the 11½ cents and six paid holidays to the UAW. With the recent large settlements at this level and the large sacrifices of its GM workers in the lengthy 1946 strike, the union was in no position for hard bargaining. It proposed a total 15-cent raise, but wanted it all in wages or split with some insurance or retirement plan rather than with paid holidays. GM, however, would not change its terms and the union finally accepted them in a contract effective until April 28, 1948. Before April ended the union settled on the same economic terms at Chrysler.

But in June of 1947 it appeared that the UAW was about to negotiate its first auto pension plan at Ford. With a 15-cent pattern already established, wages were to be increased by 7 cents and the remainder considered as the cost of pensions. However, agreement had not been reached on details of the pension plan, and, as negotations continued, opposition to pensions was revealed within the union. Dissidents at the Rouge plant opposed it in the context of sacrificed wage gains and probably because of possible greater employee stability under pensions, though they earlier had been loud demanders of pensions. Reuther's right-wing forces in the International attacked proposed provisions for contributions and benefits and the reduced wage increase as a sacrifice in worker living standards.[10] Negotiation continued and agreement on new contract provisions was reached just prior to the Taft-Hartley Act's taking effect in August. The pension issue was to be left to the workers. They were to vote for either 7 cents plus a pension plan or 11½ cents plus six paid holidays. They rejected the pension arrangement by a 3-to-1 margin, the explanation for its defeat lying in a rapidly rising cost of living and substantial publicized factional opposition.

Round Three

The year 1948 began with the formulation of bargaining demands in January by the UAW's Executive Board. These included a 25-cent flat increase, 5 cents more for insurance, a guaranteed weekly wage, 3-week vacations after 5 years' seniority, and pensions if a local wished to initiate the demand. Again, justification for the demands was rising price levels, declining real wages and the high profit levels of the auto companies. Negotiations began in February at Chrysler, where the union's Chrysler Council had increased the wage demand to 30 cents while retaining the other demands. GM negotiations commenced shortly thereafter, but Ford's were not to begin until July.

Chrysler and GM discussions proceeded with little publicity and with little progress. On May 12, 1948, some 70,000 UAW Chrysler workers struck. Both parties were at their original positions, but the company had made a 6-cent offer and the UAW, shortly before the strike, had indicated it would accept 17 cents. In a real sense, the UAW at Chrysler was at the vanguard of 1948 bargaining. There were no major previous settlements and the Steelworkers were tied to a two-year contract, their demands for wage increases in 1948 having been refused by the steel companies. But the UAW apparently was not to confine its economic pressure to Chrysler, in accordance with its customary "one-at-a-time" tactics. Rather, it filed a ten-day notice with General

Motors that it would strike before the end of May.

A strike at General Motors was averted by a settlement which came quickly and as something of a surprise to other managements in the area. GM granted 3 cents effective May 29, plus 8 cents as a cost-of-living adjustment. Both parts of the total 11 cents were rather novel. The 3 cents was an "annual improvement factor" and 3 cents more would be given on May 29, 1949. The 8 cents was formulated on the basis of an "escalator clause" under which wages would be adjusted quarterly to changes in the Bureau of Labor Statistics' Consumer Price Index. GM set forth its reasons for granting this, emphasizing the protection and improvement of buying power and the stabilizing of union-management relations for the two-year term of the contract.

After the GM settlement, Michigan's governor Kim Sigler personally intervened to bring the parties at Chrysler together for the first time since the strike was called. Settlement was reached shortly, on May 29, but not on the basis of the GM terms. The agreement on a wage increase was for a flat 13 cents, with no escalator or improvement clauses. On July 22, Ford settled in essentially the same manner.

Round Four

All of this brings us to the fourth round of 1949, when it soon became apparent that the UAW was to make pensions and insurance primary bargaining goals. The union's emphasis on these non-wage demands was bolstered by the declining cost of living which had begun in latter 1948 and by the Supreme Court's refusal, in April 1949, to hear an appeal by the Inland Steel Company from a U. S. Circuit Court of Appeals decision upholding an NLRB requirement that the company bargain with the United Steelworkers on pensions.

Before contract bargaining at Ford could get under way, however, a major strike occurred over the speedup issue. The strike lasted for 24 days, until May 29, when the main issue of production standards was submitted to arbitration.[11] Shortly afterward, amidst a good deal of speculation as to effects of the strike on the UAW's contract bargaining strategy, the union submitted its demands for $100-per-month pensions, broad medical insurance and a wage increase to Ford. The company rejected the demands, citing higher costs and Ford's competitive disadvantage if a continued fall in the cost of living resulted in further wage cuts at General Motors. The union, in a situation of declining price levels, emphasized ability-to-pay and purchasing power arguments. At Chrysler, initial company reaction to the union's demands was to contend that pensions and insurance could not be subjects for bargaining under the wage-reopener section of the existing contract.

The union's efforts were definitely concentrated at Ford, where there had been a tentative agreement on pensions in 1947. The Ford contract was extended beyond its expiration date of July 15 and in August the union conducted a strike vote among Ford workers, resulting in an affirmative vote of about 87 percent. Little progress was made in negotiations through August and into September, with the parties marking time in order to examine the report of a presidential fact-finding board involved in the 1949 steel negotia-

tions. In September the board recommended that the Steelworkers forego their 12½-cent wage demand but that pensions and social insurance should properly be a part of the labor contract. Shortly thereafter, Ford abandoned its no-pension stand and before the end of September agreement was reached on pensions of $100 per month, including Social Security benefits, for workers aged 65 with 30 years of service. The plan would be financed entirely by the company, company-paid benefits would be adjusted to compensate for any changes in federal Social Security payments, and benefit payments would begin in April, 1950.

Discussions on pensions continued through 1949 at both General Motors and Chrysler. Strictly speaking, they were not negotiations at GM. Its contract did not expire until May 1950, but in that contract it had agreed to enter into "exploratory discussions" of pensions if they were declared proper subjects for collective bargaining by a "court of last resort". The Inland Steel Case met this requirement and prompted the discussions. Chrysler continued to maintain that pensions could not be a subject of negotiation since its contract allowed for reopening only on wages. The union did not attempt to force the issue at Chrysler in the latter months of 1949. Steel and other material shortages, combined with model changeovers, were resulting in plant shutdowns and large-scale layoffs at Chrysler. The union could wait for a more propitious time to press its demands, and in 1949 concentrated on actuarial studies of Chrysler's work force.

Round Five

Failure to agree on pensions resulted in the Chrysler strike of 1950, beginning on January 25. Central to the dispute was the method of financing pensions. Chrysler had offered pension benefits comparable to Ford's but to be paid by the company as they fell due, with no funding arrangement. The UAW was insisting on the establishment of a jointly-administered trust fund with the company contributing a fixed sum for each man-hour of work. Before the strike the union's desire for a fixed company liability was indicated by its offer to accept 10 cents either in the form of payment for pensions and insurance or as a straight pay rise. The method of pension financing at Ford could not serve as a precedent in the dispute, for the parties there were in disagreement over just what the agreed-upon contract phrasing meant. The union claimed Ford was committed to pay 8¾ cents per man-hour regardless of the fund requirements and federal old age benefits. Ford claimed it had only agreed to maintain the fund in a manner to meet stipulated benefits. With federal Social Security payments expected to increase, it was an important point to both parties. To the union, fixed payment could mean a source of earmarked funds for future increased benefits; to the company, the requirement to maintain the fund to pay fixed benefits could mean reduced man-hour cost in the near future.

On March 16, 1950, the parties at Ford finally reached an agreement over the method of pension financing, which had been in doubt under what had been a "memorandum of accord" and not strictly a contract clause. The March agreement contained no commitment by Ford to pay a fixed amount into the fund. There was an understanding that

the company would begin payments of 8¾ cents, but this could be varied with federal Social Security changes, and Ford's contractual obligations was simply to meet the actuarially-determined cost of the fund. In the event of Social Security changes, Ford was to inform the union of its cents-per-hour reduction in contributions.

Chrysler and the UAW were slow in reaching agreement on the funding and fixed-cost issues, and the strike did not end until May 4, 1950, after lasting 100 days. The pension agreement was for $100 per month, with Social Security payments at age 65 after 25 years of service. Chrysler yielded and agreed to the funding principle, agreeing to pay all past service credits within 30 years. However, it did not yield on the fixed contribution point and, in that respect, had a plan similar to Ford's. But the per-hour cost of the plan was probably less for Chrysler than for Ford because of the lower average age and length of service of Chrysler employees. This cost differential was offset somewhat by other terms of the Chrysler settlement, which included partial company payment for insurance, wage increases for specific jobs and reduction of area wage differentials among Chrysler plants.

Shortly afterward, on May 23, GM and the UAW reached agreement on the first five-year contract in the auto industry. Under the pension agreement, benefits could increase for the retired employee if Social Security payments increased, since GM agreed that its pension payment would not be less than $1.50 per month for each year of service. Other terms included company payment of one-half the cost of an insurance program, continuation of the escalator and increase in the improvement factor from 3 cents to 4 cents. The agreement was praised by both the union and the corporation. GM emphasized the outlook of five years of labor peace. The UAW estimated its gains as amounting to 19 cents per hour, growing to 35 cents per hour over the term of the contract, with the escalator clause protecting real wages from the effects of any rise in the cost of living. Also the union achieved negotiation of a union security clause approaching the union shop, which had always been a tough issue on which to gain any concession from GM.

The Korean conflict, which began in June of 1950, and subsequent rapid rises in the cost of living and expectations of government wage regulation resulted in some rapid bargaining developments in the latter part of the year. In August it was announced that GM's escalator would result in a 5-cent increase on September 1st. On August 25 Chrysler granted an extra-contractual 10-cent raise to all hourly workers, with an additional 5 cents to skilled groups. Subsequent to Chrysler's signing of its 1950 contract, the UAW had negotiated larger gains at other companies. The GM settlement involved an immediate 9-cent raise. This, in addition to the Korean War, was a cause of concern to Chrysler, especially in view of the tight manpower situation in Detroit and the morale of its work force. The "voluntary" raise resulted. In a matter of days Briggs, Motor Products, Hudson, and Budd followed with similar increases.

In the first part of August the UAW had requested wage increases from Ford, with the company rejecting the request, but later in the month came

the "voluntary" increases, as well as a strike settlement at Packard patterned closely after GM provisions. By the end of August Ford was experiencing sporadic pressure strikes for wage increases at its Rouge and Lincoln plants. Kaiser-Fraser's Willow Run plant was temporarily closed for the same reasons. On September 4 Ford and the UAW signed a new contract after only a few days of negotiations. The terms were similar to GM's, including the 5-year contract with escalator and improvement factor. Pensions went to $125.[12] Vacation provisions were improved. An increase of 8 cents was given immediately, with an additional 5 cents for skilled classifications.

On September 6 a 5-year contract was signed at Kaiser-Fraser with essentially the same provisions. After this, readjustments of contracts and pay scales proceeded even more rapidly among UAW-organized plants. Similar clauses were negotiated into a 5-year contract at Chrysler in December with an immediate 1-cent increase to make Chrysler's wage increases since 1948 equal to those given at GM under the escalator and improvement factor.

Round Six

Contract termination dates were in 1955, but significant negotiated changes were made in them in 1953. By then the union had become concerned over the large size of the "float": the wage increases which had been given under the escalator as the result of a rapid rise in the cost of living. Other unions had negotiated comparable increases directly into wage rates and they were not subject to downward revision. Also, the UAW wanted cost-of-living increases in pension benefits and a 5-cent improvement factor, pointing out that the original 2½ percent productivity increase as a basis for the improvement factor amounted to 5 cents under the now higher wage levels. The union claimed the GM contract was written for normal times and that neither party had foreseen the Korean War, which broke out a month later, or the subsequent inflation. It was asking management to view the contracts as "living documents" and to be willing to adjust them to unanticipated practical problems. Furthermore, the union felt it had a basis for reopening in the existing GM contract. The Bureau of Labor Statistics was to bring out a new cost-of-living index early in 1953, with 1947-49 as the base rather than 1935-39. GM's contract specified: "The parties to this Agreement agree that the continuance of the Cost-of-Living Allowance is dependent upon the availability of the official monthly BLS Consumers' Price Index in its present form and calculated on the same basis as the Index for April, 1950, unless otherwise agreed upon by the parties."[13] With the old BLS index due to be dropped in early 1953, any transfer to the new index had to come before March 1, the date of the first 1953 cost-of-living adjustment to wages. But at the end of January President Eisenhower directed the BLS to continue to issue the old index, along with the new index, to facilitate conversion to the new index by labor and management. This did not result in the UAW agreeing to continue to use the old index figures, for the union objected to the necessary reconstruction of the January 15 figure for the old index, upon which the auto workers' March 1 adjustment would be based. A reconstruction was necessary, for the BLS had not priced the proper

items in the proper cities during January for purposes of constructing the old index. The union's attitude was that the January 15 old-index figure was not "calculated on the same basis as the index for April 1950." Furthermore, the BLS did not expect to be able to publish the January old-index figure before April.

After several months of negotiation, and after reaffirmation of the "living document" demands by the UAW's 1953 convention, agreement was reached with GM on modifications to the 5-year contract in late May. The changes agreed upon were:

1. transfer of 19 cents of the 24-cent escalator bonus to base rates, leaving 5 cents as "float";
2. increase in the improvement factor from 4 cents to 5 cents;
3. 10 cents increase for skilled classifications;
4. conversion of the escalator to the new BLS index.

Before the end of May, the UAW negotiated the same changes at Ford. In addition, Ford's maximum pension benefits were raised from $125 to $137.50, including Social Security payments. The company's liability was divorced from direct dependence upon Social Security benefits. Henceforth, Ford would pay pension benefits equivalent to $1.75 per month per year of service up to a maximum of 30 years.[14] Also, hospitalization insurance was extended to retired employees, and die sinkers and patternmakers received a 10-cent raise above the 10-cent skilled-trades increase, for a total 20-cent increase. In a matter of days, the union had negotiated all the Ford changes at Chrysler and had gone back to GM and negotiated the increased benefits for retired employees and selected skills.

Round Seven

The 1955 and 1958 negotiations can be discussed in less detail. For many years the UAW had included some form of wage guarantee in its formal demands but had never regarded it as a major demand. In 1953 it became obvious that the union was going to make the guaranteed annual wage its primary goal in the 1955 negotiations. The bargaining in that year was marked by the union's rejection of stock participation and severance pay plans and subsequent acceptance of Ford's Supplementary Unemployment Benefits Plan. The essential terms of the June 6 Ford agreement, which soon spread to other auto companies, were as follows:

1. An SUB plan giving workers, with state unemployment benefits, 65 percent of take-home pay for four weeks and then 60 percent of take-home pay for the rest of their eligibility period up to a total of 26 weeks. The company would contribute 5 cents per man-hour to a fund for financing.
2. Company payment of pension benefits increased from $1.75 to $2.25 per month per year of service. The 30-year ceiling on accumulating service credits was removed. Vested for pension credits earned after age 30 after 10 more years' service. All pension improvements applied to workers already retired.
3. Permanent and total disability pensions increased by 50 percent.
4. 6 cents or 2½ percent improvement factor increases, whichever is higher.
5. An additional 8 cents to skilled trades.
6. "Inequity" increases for certain job classifications.
7. A new vacation step: 2½ weeks for men with 10 to 15 years' seniority.
8. Increases in the various types of insurance, and improvements in health and medical plans.
9. A seventh paid holiday.
10. Full holiday pay plus double time for holiday hours worked.
11. Escalator adjustment to move up with each 5/10 of a point on the Index instead of each 6/10 of a point.

Round Eight

For 1958, early indications were that the union would place primary emphasis upon a demand for a shorter work week. Subsequently, and with some disagreement within the union, this was dropped in favor of a profit-sharing plan. However, the 1958 negotiations were dominated by the sharply reduced level of automobile sales and the substantial unemployment within the ranks of the UAW. Settlements, coming after the union had worked through the summer with no contract, contained no major breakthrough for the union by way of new provisions and were almost exclusively composed of improvements in existing benefits. Improvements were made in the SUB and pension plans, the improvement factor went to 7 cents, an 8-cent increase was given to certain skilled jobs, and high-seniority employees received some severance pay and inter-plant transfer rights.

FUTURE NEGOTIATIONS

Having thus arrived at the present time, we have the task of looking beyond, and attempting to discern the direction of future developments in automobile bargaining. It goes without saying that prognostication has obvious pitfalls; still, the nature of recent negotiations gives some clue to areas that are likely to be emphasized.

Across-the-board wage increases have fallen from their early postwar place as the primary issue in contract negotiations. Since 1950, general wage adjustments have largely taken place through the operation of "built in" clauses: the escalator and improvement clauses. Future discussions of wages in collective bargaining will center on wage differentials and the ever-present problem of comparative wage equity within the union's jurisdiction on the basis of skill, job, area, and industry. However, the union may seek another "built in" factor for wage adjustments. Job security will continue to be the basis for a variety of union demands, reflecting the substantial interests employees have in a variety of fringe benefits whose retention is now largely dependent upon retention of the job. It is likely that the union will attempt both to reduce the possibility of job loss and to make rights to fringe benefits less dependent upon job retention. The first objective can be sought by extension of inter-plant and inter-area seniority rights, perhaps with the demand that the company bear the major portion of any moving expenses for the worker. In the more distant future, a demand for inter-company transfer rights is not inconceivable, although opposition from management and administrative problems of transferring rights to fringe benefits will be serious obstacles. The second objective can be sought through the negotiation of greater vested rights for the individual in retirement and insurance funds, further divorcing such rights from seniority and job-retention requirements. The union may seek individually vested rights to SUB funds making the auto SUB plans more akin to the plans existing in the glass industry.

The issue of increased leisure time is by no means dead. It may be the crux of bargaining in the not-too-distant future. The signal for this will be an extensive, unified and protracted publicity campaign on the part of the union, akin to that accompanying the union's guaranteed annual wage de-

mand. Such a campaign has thus far been pretty much restricted to Local 600.

Increased leisure time may be negotiated in a variety of forms. In part, the particular form will depend upon the issue's priority in the union's slate of demands. If given particular emphasis by the union it will more likely take the form of some significant departure from past practice: a shorter work week, or sabbatical leaves with full pay, as proposed by the Steelworkers. If given lesser emphasis among union demands the result may be some less novel arrangement: extension of paid vacations or alternating long weekends.

The UAW's profit-sharing proposal in the 1958 negotiations is of special interest here. For years the official position of the UAW International was one of opposition to profit-sharing, founded in the view that such plans worked to the major benefit of the employer, could be used as the basis for a speedup (an intensely emotional issue for the UAW), and were often aimed at undermining the workers' loyalty to the union. This was an understandable position for a union during its formative years, when fighting for the abolition of many pre-union employer practices and when feeling none too secure about its own institutional survival in the face of some determined employer opposition. But the UAW today is a more business-like and secure organization, ready to consider any benefits of profit-sharing and more confident of its ability to prevent, from its point of view, the abuse of such plans.

In addition, the high profit levels of the auto companies have, over the years, been a persistent argument of the union's to support its demands for wage and fringe increases. The union has often referred to profits in the auto industry as unjustifiably high, leading it to question automobile pricing policies and to regard as inequitable the share of wages in relation to property income within the industry.

These considerations leave a good case for the last major wage argument of the union, profits, being used as the basis for another automatic wage adjustment clause in future contracts. With the thought that such a clause could substantially reduce union criticism and protest against company policies, management may not strongly resist its introduction.

All of the above ignores a large number of factors which could influence collective bargaining in the automobile industry, including the general level of economic activity and the state of the auto market in particular, factors of major importance in the recent negotiations. They rest on the basic view that with a relatively stable labor force likely in the auto industry, the union's efforts will be directed primarily to protecting and enhancing the job security of its membership while sharing to a larger extent in the proceeds stemming from the relatively favorable market position of the automobile industry.

[1]See *The Detroit News*, July 10, 1945.

[2]*The Detroit Free Press*, October 20, 1945.

[3]*The Detroit News*, October 22, 1945.

[4]This amounted to about 100 plants in 47 cities of 18 states, involving 175,000 employees. 50,000 more employees probably would have been called back to work before January.

[5]The panel was composed of Milton Eisenhower, Lloyd K. Garrison and Judge Walter P. Stacy.

[6]There were, apparently, a number of reasons why GM was under no great pressure to reach an early settlement. Among them: its tax-profit position and the glassmakers' strike. See *Business Week*, December 1, 1945, p. 15.

At the same time, the UAW was experiencing monthly deficits of around $150,000. Membership had declined from a wartime peak of 1,240,000 to 600,000. See *The Wall Street Journal*, December 29, 1945. However, there was no evidence of lack of strike support among the rank and file.

[7]The UAW regarded this as a breach of faith on the part of the UE, which did not inform the UAW beforehand of its decision to accept. The UE left-wing leadership probably was not completely without some desire to discredit Reuther, though this is mere conjecture and its importance as a motivating factor for UE's action is not known.

[8]The UAW had not forgotten them. In May, after the strike was settled, the union protested sharply against OPA's granting GM price relief on the basis of the negotiated wage increase. With the expiration of OPA on June 30, the union threatened to disregard its wage agreements unless industry held prices down.

[9]*A National Wage Policy for 1947*, an analysis prepared for the Congress of Industrial Organizations by Robert R. Nathan Associates, Inc., Washington, D. C., December 1946. Management in autos and other industries quickly attacked the report as biased and fallacious. See *The Nathan Report, An Appraisal of Robert R. Nathan's "A National Wage Policy for 1947,"* prepared by the Research Department, National Association of Manufacturers, New York, December 1946.

[10]They pointed out that a 2½ percent deduction from worker earnings for the pension plan cut the 7-cent increase to about 4 cents. Also, they objected that the company was obligated only to maintain the plan, with no assurance that this would amount to an 8 cents' hour cost.

Richard T. Leonard, UAW Vice-President and head of the union's Ford Department, directed the negotiations at Ford. At the time the union's internal politics were such as to make it likely that right-wing forces wished to see no rise in his prestige from successful negotiation of the first pension plan.

[11]The question, as finally posed for arbitration, was as follows: "Does the company under the contract, on the basis of health and safety or otherwise, have the right to require an employee to perform his work assignment on any unit in less time than the company's time study shows for his assignment, provided the employee is not assigned more than 480 minutes of work as measured by the time study in an eight-hour shift?" The question went to a special 3-man arbitration panel. The decision, which came in July, essentially gave a negative answer to the question, with some minor qualifications.

[12]It should be noted that by this time the 1950 increases in Social Security payments had been passed by Congress and signed by the President, to go into effect January 1, 1951.

[13]*Agreement* between General Motors Corporation and the UAW-CIO, May 29, 1950, paragraph 101 (K), p. 69.

[14]Total Social Security increases in 1954 raised maximum auto pensions, with Social Security, to $151 per month.

The Insolent Chariots[1]

You may have already read this popular little book that spoofs our automobiles. If not, chances are good that you will be intrigued into buying it soon or that some friend will hand it to you with the warning that you'll simply split your sides laughing. The author's lively wit is abetted by grotesqueries of the motor industry and its products, sketched by the inimitable Robert Osborn. Here is the perfect pair to lampoon the automobile, that object of the American male's pride and 20 percent of his expenditures.

Keats at once makes plain that he is not just writing a funnybook, however, and is a Man with a Message aimed straight for Michigan's solar plexus (if the metaphor will be forgiven). He minces no words and has plenty of barbed ones in condemning the design, operation and safety of American automobiles, their manufacturers and their dealers. He says much that has merit, although largely repetitive of what other Eastern critics have said less eloquently, and provides recommended reading for the automobile people. He also offers us consumers some useful tips on how to buy a car at a bottom price.

It is evident that Keats has had access to quite a fund of inside facts on the automobile industry, has deep conviction and is highly perceptive. Yet his punch is lost (to retrieve our metaphor), at least among thinking and fair-minded readers, by gross exaggeration, a fault that also spoils illustrator Osborn's chamber of horrors. His message is nutshelled on page 186 in referring to our automobiles as "overblown, overpriced monstrosities built by oafs for thieves to sell to mental defectives." This states the scope of those whom he castigates, which seems to comprise a rather large proportion of the nation.

The awful nightmare that Keats depicts as our highways of today is surely not the reality that most of us experience. One wonders how far Keats has ever got from the New Jersey Turnpike.

His analysis of the automobiles themselves tends to be incisive, but he

1. John Keats, *The Insolent Chariots*. Philadelphia: J. B. Lippincott Company, 1958.

is calling for automobiles designed for *his* values and ignores that the buying public has wanted most of the features and improvements in today's cars. He would seem to begrudge every automotive convenience developed since the self-starter. From his affectionate references the Model T appears to be his ideal. His nostalgia for the cars and roads of yesteryear is something that this reviewer cannot share, having ugly memories of carsickness and breakdowns every few hundred miles.

Many of the criticisms are well grounded on documented facts, but others merely quote other critics or are fanciful. Among the places where this reviewer boggled was where Keats confides that in 1956 he saw the plans for the 1958 Buick. This is credible, but at once he is saying that there was no difference between the 1957 and 1958 Buicks except "that two-inch strip on the back fenders to look like a tail fin." Almost everyone past diapers knows that the 1958 Buick was a vast break with all past styling of that make and featured, on the back fenders, a bullet-shaped blob of chrome that was fully ten inches wide and enormously conspicuous. This is just the sort of ornateness to draw Keats' rage, and perhaps justly, so it is hard to reconcile his statement of a 1958 infinitesimal Buick style change with his supposed keen observation of contemporary automotive styling.

It is hoped that few will read *The Insolent Chariots* so literally that they become hostile to what are, in objective appraisal, rather serviceable and attractive cars in current production. His valid criticisms deserve recognition, and to a large degree Detroit has been alert to such rumblings and is taking action in its products and their merchandising. In peering at us and our automobiles through murky glasses Keats hardly offers consistently sound marketing advice, but we appreciate his humorous prods toward better automobile design and merchandising.

David J. Luck
Professor, Department of
Marketing and Transportation
Administration

Landmarks of Tomorrow[1]

This book, the most recent from the prolific pen of Peter Drucker, reflects broad social and economic insights reminiscent of the author's works prior to *The Practice of Management*, published in 1954.

Mr. Drucker's special ability to relate seemingly disparate concepts and problems is fully apparent here. Writing in cosmic, lofty, and sometimes idealistic and hortatory language, Drucker clearly develops his analysis of the social, political, and economic environment in which businessman and citizen alike are enmeshed. It is the author's main thesis that our present situation marks a far-reaching departure from the world-view of the past, and that at some unmarked point during the last twenty years we passed into a new, and as yet nameless, era. Characteristic of this new view of the world are new perceptions, new capacities, new challenges, and a "new spiritual center to human existence."

The metaphysical nature of this thesis has not prevented Mr. Drucker from writing a vigorous and stimulating book. Businessmen interested in problems such as innovation, technological change, professional management, Communism, poverty, power politics, international relations, and their underlying philosophical considerations will be stimulated and challenged.

The analysis is divided into three main sections, each discussing what Mr. Drucker believes is a major area of human life and experience. The first deals with the philosophical shift from the Cartesian universe of cause-and-effect to the newer universe of pattern, purpose, and process. The second, and largest, section outlines four new areas of reality: an educated society, economic development, the decline of the nation-state as a viable organism in national and international affairs, and the collapse of non-Western culture and civilization. The third and final part of the book consists of a concluding chapter which deals with the spiritual, or metaphysical, components of human existence.

The author specifically illuminates his discussion by examples chosen from business situations, common knowledge and experience, and current affairs. For example, he makes an interesting analysis of the Robert R. Young story, in which Young's desperate attempts to play the power role of business magnate turned into tragedy because he failed to judge properly the changing world tide of history, which had come to demand that businessmen be professional managers rather than financial tycoons. The reader will find interesting discussions of the problems of the professional specialist versus the professional manager, and an intriguing analysis of the "discipline of managing." There is also a trenchant discussion of the "Organization Man" hypothesis in modern society. Most businessmen will find Chapter 3, "Beyond Collectivism and Individualism," to be the most closely related to the

1. Peter F. Drucker, *Landmarks of Tomorrow*. New York, Harper and Brothers, 1958. Pp. 270. $4.50.

problems of directing a business enterprise.

This book raises for examination many complex metaphysical questions about education, society, government, and business. No doubt they are all vital questions, yet their precise meanings elude us, for all of Mr. Drucker's help. It is clear that the author's material outreaches his avowed purpose in writing the book. While the author disclaims any intent to forecast the future (a purpose not precisely delimited by his title), the present is described in momentous, dynamic terms that thrust the reader dramatically into the future. Accepting this new world-view cannot help but pose many implications for those in society, including businessmen, whose actions are influential in social, economic, and political change. The present which Mr. Drucker describes for us is so different from the world we thought we knew that we stand in danger of being overwhelmed by the impossibility of coping with the world in which we live. The general tone of optimism which Mr. Drucker manages to keep throughout the book is somewhat belied by the many unanswered and unanswerable cosmic questions which he keeps raising. The book is rife with hortatory statements, such as "society must demand responsibility of the educators," "society must demand that education be considered by the educators as a responsibility rather than a right," "education must take a high view of its function, and must set high standards for its objectives, its own seriousness, and its products, the educated," "the metropolis must, therefore, organize activities and services across and beyond any traditional boundary lines," et cetera.

The businessman who seeks enlightenment on the broad social, political and economic questions of the day can profitably read this book. Those who expect advice on current policy and decision-making questions of the business enterprise will find the book less valuable. It provides ample opportunity for the intelligent reader to discover how much can be gained by the attempt to demonstrate the relatedness of seemingly unrelated ideas, under the guidance of so keen a thinker as Mr. Drucker.

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Independent Man[1]

In the last 100 years no ten year period other than during times of war has been so important as that from 1925 to 1935 (the speculative era of the late 1920s and the great depression of the 1930s) in the shaping of the economic, social and political life of the United States.

It was at this time that the "independent man," Senator James Couzens, Republican of Michigan, became such a strong voice in Michigan and in the U.S. Congress. With little regard for what his party or his electorate thought, he said what he believed regardless of the consequences. From 1922, when he first was appointed senator, till the end of his second elected term in 1936, Couzens openly and severely criticized Presidents Harding, Coolidge, and Hoover and successfully fought Henry Ford; Andrew Mellon, Secretary of the Treasury in the cabinets of three presidents; and the House of Morgan.

Couzens was never known as one who avoided a fight, and usually the controversy resulted in headlines. His quarrel with Mellon, for example, began innocently enough over the question of lowering the income tax rate but quickly was reduced to a name-calling session and then to attempts on the part of each to smear the other, Mellon accusing Couzens of avoiding any tax whatsoever by keeping his fortune in tax-exempt securities, Couzens calling for and getting a resolution to investigate the Bureau of Internal Revenue by a committee headed by himself, and then Mellon accusing Couzens publicly of starting this investigation to "vent some personal grievance." Finally Mellon brought an unjust tax action against Couzens for $10 million due from profits on the sale of Couzens' stock in the Ford Motor Company. After more than three years in the courts, instead of paying the additional tax, Couzens received a refund of more than $900,000 for overpayment of taxes.

This was quite an accomplishment for a man who came to Detroit as an immigrant in 1890 and began his business life as a bookkeeper. By 1915 he had accumulated a fortune of between $30 to $50 million through his connection with the Ford Motor Company; he then served as police commissioner and Mayor of Detroit.

Few serious students of the motor car industry would play down the organizing and administrative ability of this General Manager and Director of the Ford Motor Company from 1903 to 1915, and his tremendous influence on the industrial climate of Michigan. The names of Henry Ford, William Durant, Ransom Olds, and the Dodge brothers are well known, but lesser-known James Couzens was a leader and a spokesman among these. Students of modern American politics now, and for years to come, will wonder about the Senator from Michigan who alienated everyone but continued to be elected by large majorities. Economic students will never know what part this independent man played in the banking

1. Harry Barnard, *Independent Man: The Life of Senator James Couzens.* New York: Charles Scribner's Sons, 1958. pp. 378.

crisis of 1933, and students of psychology will always ponder what made the man think and act the way he did, appearing almost vindictive at times.

Author Harry Barnard, obviously sympathetic to the Senator, seems to have done more research than is ordinarily necessary for a competent biographer, yet a reader has the feeling throughout that much of the source material was carefully edited and that the years have mellowed the Senator's critics. Others who wrote of the same era and considerably closer in point of time dispute what Mr. Barnard has to say. Some of these authors are casually dispensed with in a footnote as "quite unreliable". It is interesting to read biographies of Ford, Couzens, Hoover and Roosevelt for comparison of points of view and radically different interpretations of the same times.

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Organizations[1]

This book finds its major significance in what it may help to lead others to do, more than in what it accomplishes itself. Its most significant passage, in the writer's opinion, is the following, which occurs near the beginning: "Perhaps the most critical failure of classical administrative science is that it does not confront theory with evidence. . . . The theories tend to dissolve when put into testable form. . . . As workers in the same general area,[2] we must share the onus of blame for the paucity of empirical evidence that we observe surrounding the 'practical' recommendations of administrative theorists."

This leads the reader to expect a serious attack on this problem. The authors, however, are frank to say that they are not supplying any empirical evidence in support or for the destruction of any propositions they make. Recognizing the difficulty of getting empirical evidence of this nature the

1. J. G. March and H. A. Simon, *Organizations.* New York: John Wiley & Sons, Inc., 1958.
2. Dr. Simon's Ph.D. was in political science. While Associate Dean of the Graduate School of Industrial Administration at the Carnegie Institute of Technology, he is a director of the Social Science Research Council and Associate Editor of *Sociometry.* Dr. March has had fellowships with both the Social Science Research Council and the Center for Advanced Study in the Behavioral Sciences.

reader should not be surprised at this. On the other hand, he is rightfully somewhat disappointed to find that the authors have not provided a framework for empirical investigation, either. They should be credited, however, with providing a very extensive bibliography which they have tied into their context by frequent reference.

The authors seem to shift direction a little as the book develops. Early in it they appear concerned over this problem of the empirical testing of hypotheses, but as they progress through the book, they seem to become more and more interested in building a body of deductively derived propositions relating to organizations. Thus, the farther one goes in the book, the more he finds it basically similar to much that has been written before.

It does have certain distinguishing features, however, even in the latter parts. The best and most important of these is that the ideas are set forth in terms of cause and effect propositions, or hypotheses as they could have been called. The statement of ideas relative to the functioning of organizations and the reactions of certain individual members of organizations in a cause and effect manner is something badly needed in business administration, or any kind of administration, if it is to progress in terms of its scientific possibilities.

Unfortunately, however, very few of the propositions made are in such form as to be suitable for empirical verification. Many are too general or vague. For example, "We make the general postulate that increases in 'the balance of inducement utilities over contribution utilities' . . . decreases the 'propensity of the individual participant to leave' . . . the organization, whereas decreases in that balance have an opposite effect."[3] By inducement utilities, they mean gains the organization member sees coming to him as a reward for participation, whereas the contributions are the member's contributions to the organization as a participant.

Others are so obviously true, given the conditions set forth, that no empirical proof appears needed. Truisms, however, do little to advance a science and are not of themselves alone of great aid to the business administrator. It is in the applications and fuller appreciation of these that the practitioner can be helped. Examples of these obvious truths are the following: "The greater the individual's 'satisfaction with the job' . . ., the less the perceived desirability of movement" . . . "The 'type of problem-solving' . . . used, i.e., the extent to which productive elements are present, depends on both the characteristics of the problem and on the 'past experience' of the problem solver . . ."

Another problem in organizational theory that this book brings up is two conceptually different ways of attempting to formulate this theory, even apart from the question as to whether empirical investigation is to be used or whether deductive logic is to be the prime source.

Many writers are seeking or have sought to develop *a* theory of organization. They mean one general, integrated theory that will provide the web

3. P. 93. The deletions from statements quoted are numbers inserted by the authors as part of a system devised primarily to indicate other dependent or independent variables causally connected with the variable mentioned.

into which everything relative to organizational relationships will fit. This involves model building. It leads one to look for certain clues, to try to find the essential key to all the relationships. Most attempts to accomplish this leave the reader feeling that the author has not quite succeeded, and has not, in fact, done more than emphasize and delineate one or two of a potential dozen or more equally plausible conceptions.

A further weakness in this approach is that even if a fairly satisfying model or central cluster of ideas can be developed (and what is satisfying to one man appears to offer only minor aid to another) such a conception is likely to be so general as to offer relatively little guidance to the businessman, who has practical and specific problems with which to deal.

The other of these two ways of conceiving of organization theory is that employed in March and Simon's book. They have no central thesis, but a large number of separate propositions intended to cover organization theory by supplying a multitude of separate relationships and sequences of causes and effects. Probably the main reason these authors have included a good many of the obviously true kinds of statements is that they have undertaken to provide a theory of organization not by means of a central key, but, rather, by stating independently enough of the total number of relationships and interactions involved to hope to encompass the functioning of organizations.

This approach has the merit of being specific. It could afford guides to businessmen for particular situations. The writer says it *could*. The book under consideration does not help the businessman a great deal for the reason that he already knows many of the exceedingly obvious relationships, although he may unfortunately often forget about them in the operation of his business. And the other propositions are for the most part either so general that, while helpful in understanding phenomena, they do not provide much in the way of guides for specific situations; or the propositions are only hypotheses until proof, or, at least, strong supporting empirical evidence is obtained.

While the authors do not avow a central key, there is an element that appears in many of their propositions. This is an apparent belief in the rationality of conduct by individuals in terms of facts as the individual perceives them. There is, thus, a greater degree of rationality attributed to people than some writers would favor, but it is tempered by continual emphasis on the fact that an individual's choice among alternatives or his feelings of satisfaction are based on his own conception of relevant matters, including his conception of himself. This point is probably worth thought, and, like a lot of simple ideas, may offer a possibly important contribution in many practical situations.

A final comment should be made relative to writing style. The book is intended for academicians, rather than businessmen, in this writer's opinion. The authors have sacrificed simplicity and ease of reading in order to gain very slightly in the coverage of their propositions and in uniformity of ex-

pression. For example, they state, "In general, the greater the 'objective availability of external alternatives' . . . , the more likely that such alternatives will be evoked . . ." What they mean is that the more other jobs available, the more likely a worker is to change jobs.

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Books in Brief

BUCHANAN, C. D. *Mixed Blessing: The Motor in Britain.* London, Leonard Hill, 1958.
Recent years have seen an abundance of material, pro and con, concerning the automobile and its effect upon society. Buchanan's book points out that during the 60 or so years the automobile has been with us it has effected a revolution in the transportation system, become a vital factor in the national economic life, profoundly affected the growth of towns, and opened new horizons for millions of people. The dominant position of the motor vehicle today is ably described.

MUELLER, BARBARA R. *United States Postage Stamps: How to Collect, Understand and Enjoy Them.* Princeton, Van Nostrand, 1958.
As a hobby the collection of postage stamps is one of the most popular. Because of the overemphasis on rarities, increasing prices, and the consequent impossibility of completion by most collectors many people are leaning away from United States Stamps. In recognizing the problem, the author presents fresh approaches to the collection of these stamps, and does it in such a way that enthusiasm will replace the discouragement of many collectors.

PINCHOT, AMOS R. E. *History of the Progressive Party, 1912-1916.* New York, New York University Press, 1958.
In this account of the Progressive Party by one of its foremost architects, we are presented with acute observations on the politics and personalities of a colorful era in American history. The party was born in a Chicago hotel room, among high expectations, and finally died with the 1916 campaign. Vivid accounts are given of the conflict between the idealists and the opportunists, and of the leading personalities such as Theodore Roosevelt and Robert La Follette.

GARDNER, HARVEY. *How to Get the Most Out of Your Social Security.* New York, Frederick Fell, 1958.
If you are one of the millions of people building up benefits under social security, you will be interested in this book. It answers such questions as "What will I be entitled to when I reach retirement age?," "How do I apply for benefits?," "What is a widow with children entitled to?," and "Are there special provisions for veterans, farm laborers, domestics and other groups?"

EPSTEIN, LEON D. *Politics in Wisconsin.* Madison, University of Wisconsin Press, 1958.
Beginning with a description of the social and economic millieu in which the state's political system operates, Mr. Epstein traces the history of Wisconsin politics. In delving into such subjects as Wisconsin's Old Progressives, the two party system, rural versus urban political styles, the makeup and organization of the Republican and Democratic parties, and the advantages and disadvantages of the open primary, the author has written a book that will be of great interest to students of politics.

WOOD, JAMES PLAYSTED. *The Story of Advertising.* New York, Ronald Press, 1958.
An extremely informative and entertaining account of a field to which we all are exposed. In tracing advertising from medieval England to the present the author tells us of tradesmen's signs, patent medicines, the growth of advertising agencies and their functions in the modern world, and such giants of the profession as P. T. Barnum and John Wanamaker. Throughout the book advertising is treated as a social force that influences the taste of an age.

MATHIASEN, GENEVA. ED. *Flexible Retirement: Evolving Policies and Programs for Industry and Labor.* New York, Putnam, 1957.

The editor, Executive Secretary of the National Committee On the Aging of The National Social Welfare Assembly, has compiled the results of two years of exploration into the problem of aging. As a first step in this project more than 500 business and industrial organizations were queried about their retirement and retention policies. Included among the researchers were personnel administrators, industrial physicians, psychologists, industrial engineers, and representatives from labor groups. The results of their efforts are here presented in a highly readable style which is suitable for laymen as well as students in the field.

MICHELSON, L. C. *How to Build and Operate a Mobile Home Park.* Chicago, Mobile Homes Manufacturers Association, 1955.

Do you want to operate a mobile home park? If so, this is a book that has many extremely useful ideas. While giving many useful tips on the operation of a trailer park, this writer clearly conveys the fact that a tremendous amount of work is involved in such a venture. There are discussions on financing, design, operation and other problems. The many charts and diagrams are very helpful.

WAUGH, EDGAR W. *Second Consul: The Vice-Presidency: Our Greatest Political Problem.* Indianapolis, Bobbs-Merrill, 1956.

In this penetrating and searching analysis of the Vice-Presidency, it is the author's thesis that the office, as now constituted, is our most serious political weak point. It is noted that the office has hitherto been a second-rate one, providing little challenge to men of a vigor and ability appropriate for the Presidency. As recent events have focused attention upon the Vice Presidency as never before, remarks the author, it is time we do something instead of trusting to luck. His conclusions about possible remedies for the situation will provoke much thought.

RIEBEL, JOHN P. AND DONALD R. ROBERTS. *Ten Commandments for Writing Letters That Get Results.* New York, Printers' Ink, 1957.

Do you have difficulty writing effective letters which say what you mean? Using an easy, familiar style, the authors have prepared a book which should prove valuable to anyone wishing to improve his letter writing. It is well illustrated with examples of good and poor letters and features a selection of letters which the authors consider so good that they deserve special recognition.

KARSON, MARC. *American Labor Unions & Politics, 1900-1918.* Carbondale, Illinois, Southern Illinois University Press, 1958.

With the increasing importance of labor unions it is imperative that we become acquainted with their role and position in American political life. In this volume, the first of a projected two volume work on the importance of politics in the American labor movement. Mr. Karson explains how events early compelled the AFL to embrace political action. In boldly challenging established authorities, the author has brought a fresh approach to his subject.

WILLIAM S. STODDARD